# Notes to the Accounts

## 1. Interest Receivable

| | 2004 $million | 2003 $million |
|---|---|---|
| Balances at central banks | **3** | 3 |
| Treasury bills and other eligible bills | **254** | 222 |
| Loans and advances to banks | **488** | 373 |
| Loans and advances to customers | **3,550** | 3,341 |
| Listed debt securities | **364** | 417 |
| Unlisted debt securities | **573** | 434 |
| | **5,232** | 4,790 |

## 2. Interest Payable

| | 2004 $million | 2003 $million |
|---|---|---|
| Deposits by banks | **385** | 390 |
| Customer accounts: | | |
| Current and demand accounts | **147** | 105 |
| Savings deposits | **68** | 68 |
| Time deposits | **980** | 832 |
| Debt securities in issue | **120** | 133 |
| Subordinated loan capital: | | |
| Wholly repayable within five years | **82** | 37 |
| Other | **282** | 257 |
| | **2,064** | 1,822 |

## 3. Dealing Profits

| | 2004 $million | 2003 $million |
|---|---|---|
| Income from foreign exchange dealing | **494** | 396 |
| Profits less losses on dealing securities | **20** | 12 |
| Other dealing profits | **134** | 117 |
| | **648** | 525 |

## 4. Other Operating Income

| | 2004 $million | 2003 $million |
|---|---|---|
| Other operating income includes: | | |
| Profits less losses on disposal of investment securities | **164** | 62 |
| Premium paid on repurchase of India subordinated debt | **(23)** | – |
| Dividend income | **11** | 14 |

## 5. Administrative Expenses

| | 2004 $million | 2003* $million |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | 1,196 | 999 |
| Social security costs | 32 | 25 |
| Other pension costs (note 6) | 92 | 84 |
| Other staff costs | 214 | 224 |
| | 1,534 | 1,332 |
| Premises and equipment expenses: | | |
| Rental of premises | 150 | 150 |
| Other premises and equipment costs | 159 | 125 |
| Rental of computers and equipment | 12 | 15 |
| | 321 | 290 |
| Other expenses (see below) | 721 | 640 |
| Total administrative expenses | 2,576 | 2,262 |

*Comparative restated (see note 54 on page 118).

Other expenses include $7.1 million (2003: $6.0 million*) in respect of auditor's remuneration for the Group of which $0.4 million (2003: $0.4 million) relates to the Company. The auditors of the Company, KPMG Audit Plc and their associated firms, also received $5.9 million (2003: $3.7 million*) in respect of non-audit services provided to the Group's UK subsidiaries. Details of non-audit services are reflected below.

| | 2004 $million | 2003* $million |
|---|---|---|
| Non-audit fees paid to KPMG Audit Plc and its associated firms: | | |
| Regulatory reviews | 1.7 | 1.4 |
| Accounting reviews/advisory | 0.3 | – |
| Capital raising activities | 0.2 | – |
| Assistance with business acquisitions and disposals | 1.1 | 0.1 |
| Tax advisory | 1.2 | 0.9 |
| Other assistance | 1.4 | 1.3 |
| Total | 5.9 | 3.7 |

*Comparative restated to present on a consistent basis.

## 6. Retirement Benefits

The total charge for benefits under the Group's retirement benefit schemes was $82 million (2003: $97 million), of which $45 million (2003: $38 million) was for defined benefit pension schemes, $46 million (2003: $44 million) was for defined contribution pension schemes and $1 million (2003: $2 million) was for post-retirement benefits other than pensions. The finance income was $10 million (2003: charge of $13 million). These have been assessed under the accounting standard, Financial Reporting Standard 17 – Retirement Benefits (FRS17).

The total charge for defined benefit pension schemes under FRS17 is made up of a charge against operating profit of $45 million (2003: $38 million) plus a credit to investment income of $10 million (2003: charge of $13 million). The total loss recognised in the Statement of Total Recognised Gains and Losses before tax is $5 million (2003: $65 million).

### UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2002 by T. Cunningham, Fellow of the Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. The assumptions having the most significant effect on the outcome of this valuation were:

## 6. Retirement Benefits continued

| | |
|---|---|
| Return from investments held for pensioners | 5.0 per cent per annum |
| Return from investments held for non-pensioners before retirement | 6.4 per cent per annum |
| Return from investments held for non-pensioners after retirement | 5.2 per cent per annum |
| General increase in salaries | 4.8 per cent per annum |
| Increase in pensions: | |
| In deferment (where applicable) | 2.3 per cent per annum |
| In payment* (pre April 1997 service) | 2.3 per cent per annum |
| In payment (post April 1997 service) | 2.3 per cent per annum |

*Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,197 million) was sufficient to cover 97 per cent of the benefits that had accrued to members (84 per cent including the allowance for discretionary benefit increases). The Group paid an additional contribution of $114 million into the Fund on 30 December 2003 to improve the financial position of the Fund. No further additional contributions were paid during 2004 and none are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2004 totalled $14 million (2003: $139 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) and seconded staff and 38.4 per cent of pensionable salary for international staff. Due to the closure of the Fund to new entrants, the current service cost will increase as the members approach retirement.

Pension costs for the purpose of these accounts were assessed using the same method, but the assumptions were different in several respects.

With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme.

### Overseas Pension Schemes

The principal overseas defined benefit pension schemes operated by the Group are in Hong Kong, India, Jersey, Kenya and the United States. For the transitional reporting under FRS17 in previous years only these countries were included. As part of the full introduction of FRS17 the reporting has been extended to include all defined benefit schemes operated by the Group.

The disclosures required under FRS17 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2004. (The effective date of the full valuations ranges between 31 December 2002 and 31 December 2004.)

Separate figures are disclosed for the UK Fund, Overseas Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2004 were:

| | Funded Defined Benefit Schemes | | | | | |
|---|---|---|---|---|---|---|
| | UK Fund | | | Overseas Schemes[1] | | |
| | 2004 % | 2003 % | 2002 % | 2004 % | 2003 % | 2002 % |
| Price inflation | **2.80** | 2.80 | 2.30 | **2.00-4.50** | 2.00-3.50 | 1.50-3.50 |
| Salary increases | **5.30** | 5.30 | 4.80 | **4.00-5.00** | 4.80-7.00 | 4.00-7.00 |
| Pension increases | **2.40** | 2.40 | 2.30 | **0.00-2.40** | 0.00-2.40 | 2.25-3.00 |
| Discount rate | **5.40** | 5.50 | 5.70 | **4.00-12.00** | 5.00-8.00 | 5.00-12.00 |
| Post-retirement medical trend rate | **N/A** | N/A | N/A | **N/A** | N/A | N/A |

Pension increases for the UK Fund range from 2.2 per cent to 2.6 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 2.8 per cent.

[1] The range of assumptions shown is for the main overseas schemes in Hong Kong, India, Jersey, Kenya and the United States. These comprise 89 per cent of the total schemes.

## 6. Retirement Benefits continued

| | Unfunded Schemes | | | | | |
|---|---|---|---|---|---|---|
| | Post-retirement Medical[1] | | | Other | | |
| | **2004** % | 2003 % | 2002 % | **2004** % | 2003 % | 2002 % |
| Price inflation | **2.70** | 2.50 | 1.75 | **2.00-6.00** | 2.50-3.50 | 1.75-3.50 |
| Salary increases | **4.00** | 4.00 | 4.00 | **4.00-8.00** | 4.00-5.30 | 4.00-7.00 |
| Pension increases | **N/A** | N/A | N/A | **0.00-2.40** | 0.00-2.40 | 0.00-2.30 |
| Discount rate | **6.20** | 6.25 | 6.75 | **3.00-10.00** | 5.50-7.00 | 5.70-8.50 |
| Post-retirement medical rate | **9% in 2004 reducing by 1% per annum to 5% in 2008** | 10% in 2003 reducing by 1% per annum to 5% in 2008 | 10% in 2002 reducing by 1% per annum to 5% in 2007 | **N/A** | N/A | N/A |

[1]These values only cover the Post-retirement Medical plan in the United States. There are no other Post-retirement Medical schemes.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2004 were:

| | **Funded Defined Benefit Schemes** | | | | **Unfunded Schemes** | | | |
|---|---|---|---|---|---|---|---|---|
| | **UK Fund** | | **Overseas Schemes** | | **Post-retirement Medical** | | **Other** | |
| **At 31 December 2004** | **Expected return on assets %** | **Value $million** | **Expected[1] return on assets %** | **Value $million** | **Expected return on assets %** | **Value $million** | **Expected return on assets %** | **Value $million** |
| Equities | **8.40** | **649** | **7.00-12.00** | **161** | **N/A** | **N/A** | **N/A** | **N/A** |
| Bonds | **4.76-5.40** | **916** | **4.76-12.00** | **126** | **N/A** | **N/A** | **N/A** | **N/A** |
| Property | **6.50** | **–** | **6.50-12.00** | **6** | **N/A** | **N/A** | **N/A** | **N/A** |
| Others | **4.60** | **31** | **1.75-4.90** | **24** | **N/A** | **N/A** | **N/A** | **N/A** |
| Total market value of assets | | **1,596** | | **317** | | **N/A** | | **N/A** |
| Present value of the schemes' liabilities | | **(1,679)** | | **(334)** | | **(11)** | | **(45)** |
| Deficit* | | **(83)** | | **(17)** | | **(11)** | | **(45)** |
| Related deferred tax asset | | **25** | | **5** | | **3** | | **13** |
| Net pension liability | | **(58)** | | **(12)** | | **(8)** | | **(32)** |

[1]The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Kenya and the United States.

*No scheme contains a surplus that is non-recoverable.

| | Funded Defined Benefit Schemes | | | | Unfunded Schemes | | | |
|---|---|---|---|---|---|---|---|---|
| | UK Fund | | Overseas Schemes | | Post-retirement Medical | | Other | |
| At 31 December 2003 | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million |
| Equities | 8.60 | 543 | 7.00-9.50 | 131 | N/A | N/A | N/A | N/A |
| Bonds | 4.80-5.50 | 813 | 5.50-8.00 | 93 | N/A | N/A | N/A | N/A |
| Property | 6.70 | 1 | 6.70-8.00 | 4 | N/A | N/A | N/A | N/A |
| Others | 4.90 | 73 | 2.50-8.00 | 7 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,430 | | 235 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,509) | | (282) | | (12) | | (35) |
| Deficit* | | (79) | | (47) | | (12) | | (35) |
| Related deferred tax asset | | 24 | | 13 | | 4 | | 8 |
| Net pension liability | | (55) | | (34) | | (8) | | (27) |

*No scheme contains a surplus that is non-recoverable.

## 6. Retirement Benefits continued

| At 31 December 2002 | Funded Defined Benefit Schemes UK Fund Expected return on assets % | UK Fund Value $million | Overseas Schemes Expected return on assets % | Overseas Schemes Value $million | Unfunded Schemes Post-retirement Medical Expected return on assets % | Post-retirement Medical Value $million | Other Expected return on assets % | Other Value $million |
|---|---|---|---|---|---|---|---|---|
| Equities | 8.30 | 237 | 7.00-12.00 | 98 | N/A | N/A | N/A | N/A |
| Bonds | 4.50 | 855 | 5.25-12.00 | 83 | N/A | N/A | N/A | N/A |
| Property | 6.40 | 1 | 7.00-12.00 | 2 | N/A | N/A | N/A | N/A |
| Others | 4.60 | 35 | 1.75-12.00 | 5 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,128 | | 188 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,235) | | (268) | | (14) | | (17) |
| Deficit* | | (107) | | (80) | | (14) | | (17) |
| Related deferred tax asset | | 32 | | 23 | | 4 | | 2 |
| Net pension liability | | (75) | | (57) | | (10) | | (15) |

*No scheme contains a surplus that is non-recoverable.

The pension expense for defined benefit schemes on the FRS17 basis was:

| Year ending 31 December 2004 | Funded Defined Benefit Schemes UK Fund $million | Overseas Schemes $million | Unfunded Schemes Post-retirement Medical $million | Other $million | Total $million |
|---|---|---|---|---|---|
| Current service cost | 15 | 24 | – | 8 | 47 |
| Past service cost | 1 | 1 | – | 1 | 3 |
| Gain on settlement and curtailments | – | (5) | – | – | (5) |
| Total charge to operating profit | 16 | 20 | – | 9 | 45 |
| Expected return on pension scheme assets | (91) | (29) | – | – | (120) |
| Interest on pension scheme liabilities | 84 | 23 | 1 | 2 | 110 |
| Charge to investment income | (7) | (6) | 1 | 2 | (10) |
| Total charge to profit before deduction of tax | 9 | 14 | 1 | 11 | 35 |
| Gain on assets* | (20) | (2) | – | – | (22) |
| Experience gain on liabilities | – | (1) | (1) | – | (2) |
| Loss/(gain) on change of assumptions | 23 | 7 | – | (1) | 29 |
| Total loss/(gain) recognised in Statement of Total Recognised Gains and Losses before tax | 3 | 4 | (1) | (1) | 5 |
| Deferred taxation | (1) | – | – | – | (1) |
| Total loss/(gain) after tax | 2 | 4 | (1) | (1) | 4 |

*In excess of expected return.

## 6. Retirement Benefits continued

| Year ending 31 December 2003 | Funded Defined Benefit Schemes UK Fund $million | Funded Defined Benefit Schemes Overseas Schemes $million | Unfunded Schemes Post-retirement Medical $million | Unfunded Schemes Other $million | Total $million |
|---|---|---|---|---|---|
| Current service cost | 11 | 22 | – | 4 | 37 |
| Past service cost | (2) | – | – | 8 | 6 |
| Gain on settlement and curtailments | – | (5) | – | – | (5) |
| Total charge to operating profit | 9 | 17 | – | 12 | 38 |
| Expected return on pension scheme assets | (59) | (14) | – | – | (73) |
| Interest on pension scheme liabilities | 69 | 15 | 1 | 1 | 86 |
| Charge to investment income | 10 | 1 | 1 | 1 | 13 |
| Total charge to profit before deduction of tax | 19 | 18 | 1 | 13 | 51 |
| Gain on assets* | (42) | (25) | – | – | (67) |
| Experience loss/(gain) on liabilities | 15 | (5) | (3) | 2 | 9 |
| Loss on change of assumptions | 109 | 10 | 1 | 3 | 123 |
| Total loss/(gain)recognised in Statement of Total Recognised Gains and Losses before tax | 82 | (20) | (2) | 5 | 65 |
| Deferred taxation | (25) | 6 | 1 | (2) | (20) |
| Total loss/(gain) after tax | 57 | (14) | (1) | 3 | 45 |

*In excess of expected return.

Movement in the pension schemes and post–retirement medical deficit during the year comprise:

| | Funded Defined Benefit Schemes UK Fund $million | Funded Defined Benefit Schemes Overseas Schemes $million | Unfunded Schemes Post-retirement Medical $million | Unfunded Schemes Other $million | Total $million |
|---|---|---|---|---|---|
| Deficit at 1 January 2004 | **(79)** | **(47)** | **(12)** | **(35)** | **(173)** |
| Contributions | **14** | **49** | **1** | **1** | **65** |
| Current service cost | **(15)** | **(24)** | **–** | **(8)** | **(47)** |
| Past service cost | **(1)** | **(1)** | **–** | **(1)** | **(3)** |
| Settlement/curtailment costs | **–** | **5** | **–** | **–** | **5** |
| Other finance income/(charge) | **7** | **6** | **(1)** | **(2)** | **10** |
| Actuarial (loss)/gain | **(3)** | **(4)** | **1** | **1** | **(5)** |
| Exchange rate adjustment | **(6)** | **(1)** | **–** | **(1)** | **(8)** |
| Deficit at 31 December 2004 | **(83)** | **(17)** | **(11)** | **(45)** | **(156)** |

| | Funded Defined Benefit Schemes UK Fund $million | Funded Defined Benefit Schemes Overseas Schemes $million | Unfunded Schemes Post-retirement Medical $million | Unfunded Schemes Other $million | Total $million |
|---|---|---|---|---|---|
| Deficit at 1 January 2003 | (107) | (80)* | (14) | (17)* | (218)* |
| Contributions | 139 | 33 | 1 | 1 | 174 |
| Current service cost | (11) | (22) | – | (4) | (37) |
| Past service cost | 2 | – | – | (8) | (6) |
| Settlement/curtailment costs | – | 5 | – | – | 5 |
| Other finance income/(charge) | (10) | (1) | (1) | (1) | (13) |
| Actuarial (loss)/gain | (82) | 20 | 2 | (5) | (65) |
| Exchange rate adjustment | (10) | (2) | – | (1) | (13) |
| Deficit at 31 December 2003 | (79) | (47) | (12) | (35) | (173) |

*These numbers have been restated to include a number of smaller arrangements excluded on grounds of materiality from last year's transitional reporting under FRS17.

## 6. Retirement Benefits continued

The history of experience gains and losses for the financial year is as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| (Gain)/loss on scheme assets: | | | |
| Amount ($million) | (22) | (67) | 99 |
| % of scheme assets at end of year | 1.15% | 4.02% | 7.52% |
| Experience (gain)/loss on scheme liabilities: | | | |
| Amount ($million) | (2) | 9 | (29) |
| % of scheme liabilities at end of year | 0.10% | 0.49% | 1.91% |
| Total actuarial loss recognised in statement of total recognised gains and losses: | | | |
| Amount ($million) | 5 | 65 | 154 |
| % of scheme liabilities at end of year | 0.24% | 3.56% | 10.12% |

## 7. Depreciation and Amortisation

| | 2004 $million | 2003 $million |
|---|---|---|
| Goodwill | 181 | 134 |
| Premises | 40 | 43 |
| Equipment | 199 | 204 |
| | 420 | 381 |

## 8. Directors and Officers

### Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 54 to 67.

### Transactions with directors, officers and others

As at 31 December 2004, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the Listing Rules of the Stock Exchange of Hong Kong about loans to directors and officers were as follows:

| | 2004 Number | 2004 $000 | 2003 Number | 2003 $000 |
|---|---|---|---|---|
| Directors | – | – | 3 | 21 |
| Officers* | 7 | 2,396 | 12 | 6,373 |

*For this disclosure, the term 'directors' means the directors of Standard Chartered PLC and the directors of Standard Chartered Bank and the term 'officers' means the company secretary and band 1 senior management.

On 27 August 2004, Standard Chartered Links (HK) Limited, a wholly owned subsidiary of Standard Chartered PLC, completed the acquisition of the entire issued share capital of Advantage Limited from Goland Investment Limited, Winsgreat Limited (a wholly owned subsidiary of Sun Hung Kai Properties Limited ('SHK')) and Warshall Holdings Limited.

Mr Raymond Kwok, one of the directors of Standard Chartered Bank (Hong Kong) Limited (a wholly owned subsidiary of Standard Chartered PLC), is deemed to be interested (within the meaning of the Hong Kong Securities and Futures Ordinance) in 44.96 per cent of the shares in SHK, which in turn owns all the shares in Winsgreat Limited. Accordingly, Winsgreat is an associate of Mr Kwok and the acquisition of Winsgreat's shares in Advantage Limited is a connected transaction for Standard Chartered PLC.

Further details of the transaction can be found in note 23 to the accounts.

There were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the Listing Rules of the Stock Exchange of Hong Kong.

## 9. Taxation

| | 2004 $million | 2003* $million |
|---|---|---|
| Analysis of taxation charge in the period | | |
| The charge for taxation based upon the profits for the period comprises: | | |
| United Kingdom corporation tax at 30 per cent (2003: 30 per cent): | | |
| Current tax on income for the year | 407 | 353 |
| Adjustments in respect of prior periods | 17 | (34) |
| Double taxation relief | (357) | (286) |
| Foreign tax: | | |
| Current tax on income for the period | 559 | 491 |
| Adjustments in respect of prior periods | (14) | (26) |
| Total current tax | 612 | 498 |
| Deferred tax: | | |
| Origination/reversal of timing differences – current year | 38 | 7 |
| Adjustments in respect of prior periods | (13) | (8) |
| | 25 | (1) |
| Tax on profits on ordinary activities | 637 | 497 |
| Effective tax rate | 29.5% | 32.1% |

*Comparative restated (see note 54 on page 118).

Overseas taxation includes taxation on Hong Kong profits of $122 million (2003: $134 million) provided at a rate of 17.5 per cent (2003: 17.5 per cent) on the profits assessable in Hong Kong. The Group's total deferred tax asset is $322 million at 31 December 2004, (2003: $339 million). $276 million (2003: $290 million) is disclosed in other assets. The balance of $46 million in December 2004 (2003: $49 million) represents the deferred tax on pension liabilities, so is offset against the pension liabilities amount included in other liabilities.

The current taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 30 per cent. The differences are explained below:

| | 2004 $million | 2003* $million |
|---|---|---|
| Current tax reconciliation: | | |
| Profit on ordinary activities before taxation | 2,158 | 1,550 |
| Current tax at 30 per cent (2003: 30 per cent) | 648 | 465 |
| Effects of: | | |
| Goodwill amortisation not deductible for tax purposes | 54 | 39 |
| (Lower)/higher taxes on overseas earnings | (12) | 60 |
| One-off adjustments on incorporation of Hong Kong branch | (25) | – |
| Non-allowable depreciation | 6 | 6 |
| Adjustments to tax charge in respect of previous periods | 3 | (59) |
| Capital gains against which losses have been applied | (36) | – |
| Other items | (26) | (13) |
| Total current taxation charge | 612 | 498 |

*Comparative restated (see note 54 on page 118).

## 10. Dividends on Non-equity Preference Shares

| | 2004 $million | 2003 $million |
|---|---|---|
| Non-cumulative irredeemable preference shares: | | |
| 7³⁄₈ per cent preference shares of £1 each | 14 | 12 |
| 8¹⁄₄ per cent preference shares of £1 each | 15 | 13 |
| Non-cumulative redeemable preference shares: | | |
| 8.9 per cent preference shares of $5 each | 29 | 30 |
| | 58 | 55 |

## 11. Dividends on Ordinary Equity Shares

| | 2004 Cents per share | 2004 $million | 2003 Cents per share | 2003 $million |
|---|---|---|---|---|
| Interim | **17.06** | **201** | 15.51 | 182 |
| Final | **40.44** | **524** | 36.49 | 429 |
| | **57.50** | **725** | 52.00 | 611 |

The 2004 final dividend of 40.44 cents per share will be paid in either sterling, Hong Kong dollars or US dollars on 13 May 2005 to shareholders on the UK register of members at the close of business on 25 February 2005 and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9.00am Hong Kong time) on 25 February 2005. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of all or part of the final dividend. Details of the dividend will be sent to shareholders on or around 14 March 2005.

## 12. Earnings per Ordinary Share

| | 2004 Profit $million | 2004 Average number of shares ('000) | 2004 Amount per share | 2003* Profit $million | 2003* Average number of shares ('000) | 2003* Amount per share |
|---|---|---|---|---|---|---|
| **Basic earnings per ordinary share** | | | | | | |
| Profit attributable to ordinary shareholders | **1,421** | **1,172,921** | | 969 | 1,167,333 | |
| Premium and costs paid on repurchase of preference shares | **–** | **–** | | (12) | – | |
| **Basic earnings per ordinary share** | **1,421** | **1,172,921** | **121.2c** | 957 | 1,167,333 | 82.0c |
| **Effect of dilutive potential ordinary shares** | | | | | | |
| Convertible bonds | **23** | **34,488** | | 21 | 34,488 | |
| Options | **–** | **3,444** | | – | 6,161 | |
| Diluted earnings per ordinary share | **1,444** | **1,210,853** | **119.3c** | 978 | 1,207,982 | 81.0c |

*Comparative restated (see note 54 on page 118).

### Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in Financial Reporting Standard 14. The following table shows the calculation of normalised earnings per share, i.e. based on the Group's results excluding amortisation of goodwill, profits/losses of a capital nature and profits/losses on repurchase of preference share capital.

| | 2004 $million | 2003* $million |
|---|---|---|
| Profit attributable to ordinary shareholders, as above | **1,421** | 957 |
| Amortisation of goodwill | **181** | 134 |
| Premium and costs paid on repurchase of preference shares | **–** | 12 |
| Profit on sale of shares in – KorAm | **(95)** | – |
| – Bank of China | **(36)** | – |
| Premium and costs paid on repurchase of subordinated debt | **23** | – |
| Costs of Hong Kong incorporation | **18** | – |
| Tsunami donation | **5** | – |
| | **(85)** | – |
| Profits less losses on disposal of investment securities | **(33)** | (62) |
| Profit on sale of tangible fixed assets | **(4)** | – |
| Profit on disposal of subsidiary undertakings | **(4)** | – |
| Amounts written off fixed asset investments | **1** | 11 |
| **Normalised earnings** | **1,477** | 1,052 |
| **Normalised earnings per ordinary share** | **125.9c** | 90.1c |

* Comparative restated (see note 54 on page 118).

## 13. Treasury Bills and Other Eligible Bills

| | 2004 $million | 2003 $million |
|---|---|---|
| Dealing securities | 236 | 156 |
| Investment securities | 4,189 | 5,533 |
| Total treasury bills and other eligible bills | 4,425 | 5,689 |

The estimated market value of treasury bills and similar securities held for investment purposes amounted to $4,188 million (2003: $5,541 million).

Treasury bills and other eligible bills include $nil (2003: $86 million) of bills sold subject to sale and repurchase transactions.

The change in the book amount of treasury bills and similar securities held for investment purposes comprised:

| | Historical cost $million | Amortisation of discounts/ premiums $million | Book amount $million |
|---|---|---|---|
| At 1 January 2004 | 5,485 | 48 | 5,533 |
| Exchange translation differences | 17 | 3 | 20 |
| Acquisitions | 9,396 | – | 9,396 |
| Maturities and disposals | (10,775) | (3) | (10,778) |
| Amortisation of discounts and premiums | – | 18 | 18 |
| At 31 December 2004 | 4,123 | 66 | 4,189 |

At 31 December 2004, unamortised discounts on treasury bills and similar securities held for investment purposes amounted to $1 million (2003: $11 million) and there were $1 million unamortised premiums (2003: $1 million).

## 14. Loans and Advances to Banks

| | 2004 $million | 2003 $million |
|---|---|---|
| Repayable on demand | 2,272 | 3,826 |
| With a residual maturity of: | | |
| Three months or less | 9,031 | 4,950 |
| Between three months and one year | 4,445 | 3,350 |
| Between one and five years | 2,563 | 705 |
| Over five years | 675 | 592 |
| | 18,986 | 13,423 |
| Provisions for bad and doubtful debts (note 17) | (52) | (59) |
| Interest in suspense (note 18) | (12) | (10) |
| | 18,922 | 13,354 |

Loans and advances to banks include balances with central banks and other regulatory authorities amounting to $1,806 million (2003: $1,361 million) which are required by local statute and regulation.

## 15. Loans and Advances to Customers

| | 2004 $million | 2003 $million |
|---|---|---|
| Repayable on demand | **7,384** | 7,181 |
| With a residual maturity of: | | |
| Three months or less | **20,616** | 16,321 |
| Between three months and one year | **9,713** | 8,308 |
| Between one and five years | **13,617** | 12,429 |
| Over five years | **22,536** | 18,144 |
| | **73,866** | 62,383 |
| Specific provisions for bad and doubtful debts (note 17) | **(1,373)** | (1,602) |
| General provisions (note 17) | **(335)** | (425) |
| Interest in suspense (note 18) | **(562)** | (612) |
| | **71,596** | 59,744 |

There are loans of $4 million (2003: $4 million) which are subordinated to the claims of other parties.

The Group's exposure to credit risk is concentrated in Hong Kong and the Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Hong Kong residents of approximately $12.2 billion (2003: $12.0 billion).

The following table shows loans and advances to customers by each principal category of borrower's business or industry:

| | One year or less $million | One to five years $million | Over five years $million | 2004 Total $million | 2003* Total $million |
|---|---|---|---|---|---|
| Consumer Banking: | | | | | |
| Mortgages | **1,877** | **4,156** | **15,985** | **22,018** | 20,289 |
| Other | **5,241** | **3,876** | **403** | **9,520** | 8,961 |
| Small and medium enterprises | **989** | **440** | **2,050** | **3,479** | 2,406 |
| Consumer Banking | **8,107** | **8,472** | **18,438** | **35,017** | 31,656 |
| Agriculture, forestry and fishing | **568** | **80** | **8** | **656** | 700 |
| Construction | **531** | **62** | **22** | **615** | 409 |
| Commerce | **5,760** | **492** | **73** | **6,325** | 5,268 |
| Electricity, gas and water | **751** | **233** | **410** | **1,394** | 967 |
| Financing, insurance and business services | **6,776** | **1,153** | **1,001** | **8,930** | 5,742 |
| Loans to governments | **1,819** | **127** | **159** | **2,105** | 1,110 |
| Mining and quarrying | **929** | **358** | **240** | **1,527** | 731 |
| Manufacturing | **7,197** | **1,100** | **1,029** | **9,326** | 8,360 |
| Commercial real estate | **1,441** | **674** | **11** | **2,126** | 1,864 |
| Transport, storage and communication | **1,406** | **683** | **873** | **2,962** | 2,755 |
| Other | **492** | **183** | **273** | **948** | 607 |
| Wholesale Banking | **27,670** | **5,145** | **4,099** | **36,914** | 28,513 |
| General provision | | | | **(335)** | (425) |
| | | | | **71,596** | 59,744 |

*The analysis of net loans and advances to customers for Consumer and Wholesale Banking at 31 December 2003 has been restated to separately disclose small and medium enterprises within Consumer Banking. This has resulted in a transfer of $514 million from the Wholesale Banking portfolio to Consumer Banking. There was no impact on total net loans and advances to customers.

## 16. Assets Leased to Customers

| | 2004 $million | 2003 $million |
|---|---|---|
| Finance leases | 181 | 270 |
| Instalment credit agreements | 1,052 | 867 |
| | 1,233 | 1,137 |

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to $111 million (2003: $146 million).

The aggregate amounts of leasing income receivable, including capital repayments, under finance leases amounted to $189 million (2003: $203 million).

## 17. Provisions for Bad and Doubtful Debts

| | 2004 Specific $million | 2004 General $million | 2003 Specific $million | 2003 General $million |
|---|---|---|---|---|
| Provisions held at 1 January | 1,661 | 425 | 1,824 | 468 |
| Exchange translation differences | 15 | – | 33 | – |
| Amount utilised | – | (39) | – | (33) |
| Amounts written off | (607) | – | (910) | – |
| Recoveries of amounts previously written off | 95 | – | 84 | – |
| Other | (8) | 4 | 84 | – |
| New provisions | 609 | – | 904 | – |
| Recoveries/provisions no longer required | (340) | (55) | (358) | (10) |
| Net charge against profit | 269 | (55) | 546 | (10) |
| Provisions held at 31 December | 1,425 | 335 | 1,661 | 425 |

The following table shows specific provisions by each principal category of borrower's business or industry:

| | 2004 $million | 2003 $million |
|---|---|---|
| Loans to individuals: | | |
| Mortgages | 61 | 85 |
| Other | 67 | 56 |
| Small and medium enterprises | 17 | 7 |
| Consumer Banking | 145 | 148 |
| Agriculture, forestry and fishing | 39 | 22 |
| Construction | 40 | 47 |
| Commerce | 386 | 469 |
| Electricity, gas and water | 11 | 17 |
| Financing, insurance and business services | 101 | 78 |
| Loans to governments | 44 | – |
| Mining and quarrying | 34 | 24 |
| Manufacturing | 435 | 618 |
| Commercial real estate | 3 | 23 |
| Transport, storage and communication | 49 | 62 |
| Other | 86 | 94 |
| Wholesale Banking | 1,228 | 1,454 |
| Provisions for bad and doubtful debts against loans and advances to customers (note 15) | 1,373 | 1,602 |
| Provisions for bad and doubtful debts against loans and advances to banks (note 14) | 52 | 59 |
| Total provisions for bad and doubtful debts | 1,425 | 1,661 |

## 18. Interest in Suspense

| | 2004 $million | 2003 $million |
|---|---|---|
| At 1 January | 725 | 853 |
| Exchange translation differences | 17 | (4) |
| Withheld from profit | 61 | 135 |
| Amounts written off | (195) | (259) |
| Other | 6 | – |
| At 31 December | 614 | 725 |
| Total interest in suspense relating to: | | |
| Loans and advances to customers (note 15) | 562 | 612 |
| Loans and advances to banks (note 14) | 12 | 10 |
| Prepayments and accrued income | 40 | 103 |
| | 614 | 725 |

## 19. Non-performing Loans

| | 2004 SCNB (LMA) $million | 2004 Other $million | 2004 Total $million | 2003 SCNB (LMA) $million | 2003 Other $million | 2003 Total $million |
|---|---|---|---|---|---|---|
| Loans and advances on which interest is suspended | 351 | 2,552 | 2,903 | 772 | 3,031 | 3,803 |
| Specific provisions for bad and doubtful debts | (115) | (1,310) | (1,425) | (112) | (1,549) | (1,661) |
| Interest in suspense | – | (574) | (574) | – | (622) | (622) |
| | 236 | 668 | 904 | 660 | 860 | 1,520 |

The Group acquired Standard Chartered Nakornthon Bank (SCNB) (formerly Nakornthon Bank) in September 1999. Under the terms of the acquisition, non-performing loans (NPLs) of THB38.75 billion ($998 million) were subject to a Loan Management Agreement (LMA) with the Financial Institutions Development Fund (FIDF), a Thai Government agency. Under the LMA, the FIDF has guaranteed the recovery of a principal amount of the NPLs of THB23 billion ($592 million). The LMA also provides, inter alia, for loss sharing arrangements whereby the FIDF will bear up to 85 per cent of losses in excess of the guaranteed amount. The guarantee from FIDF is being progressively settled with the final settlement expected in early 2005. The carrying cost of the NPLs is reimbursable by the FIDF to SCNB every half year for a period of five years from the date of acquisition.

Excluding the SCNB non-performing loan portfolio, subject to the LMA, specific provisions and interest in suspense together cover 74 per cent (2003: 72 per cent) of total non-performing lending to customers.

| | 2004 Customers $million | 2004 Banks $million | 2004 Total $million | 2003 Customers $million | 2003 Banks $million | 2003 Total $million |
|---|---|---|---|---|---|---|
| Gross loans and advances on which interest is suspended | 58 | 2 | 60 | 104 | – | 104 |
| Gross loans and advances on which provisions have been raised | 2,726 | 117 | 2,843 | 3,535 | 164 | 3,699 |
| Total gross loans and advances on which interest is suspended | 2,784 | 119 | 2,903 | 3,639 | 164 | 3,803 |

Income suspended in the period amounted to $117 million (2003: $206 million). Income recognised in the period was $56 million (2003: $71 million).

## 20. Debt Securities and Other Fixed Income Securities

| | Book amount Investment securities $million | Book amount Dealing securities $million | Book amount Total debt securities $million | 2004 Valuation Investment securities $million |
|---|---|---|---|---|
| Issued by public bodies: | | | | |
| Government securities | 8,206 | 1,719 | 9,925 | 8,231 |
| Other public sector securities | 1,263 | – | 1,263 | 1,256 |
| | 9,469 | 1,719 | 11,188 | 9,487 |
| Issued by banks: | | | | |
| Certificates of deposit | 6,076 | 82 | 6,158 | 6,068 |
| Other debt securities | 6,269 | 777 | 7,046 | 6,285 |
| | 12,345 | 859 | 13,204 | 12,353 |
| Issued by other issuers: | | | | |
| Other debt securities | 2,895 | 1,008 | 3,903 | 2,900 |
| | 2,895 | 1,008 | 3,903 | 2,900 |
| Total debt securities | 24,709 | 3,586 | 28,295 | 24,740 |
| Of which: | | | | |
| Listed on a recognised UK exchange | 5,651 | – | 5,651 | 5,671 |
| Listed elsewhere | 6,700 | 1,505 | 8,205 | 6,723 |
| Unlisted | 12,358 | 2,081 | 14,439 | 12,346 |
| | 24,709 | 3,586 | 28,295 | 24,740 |

| | |
|---|---|
| Book amount investment securities: | |
| One year or less | 14,627 |
| One to five years | 8,107 |
| More than five years | 1,975 |
| | 24,709 |

## 20. Debt Securities and Other Fixed Income Securities continued

| | Book amount Investment securities $million | Book amount Dealing securities $million | Book amount Total debt securities $million | 2003 Valuation Investment securities $million |
|---|---|---|---|---|
| Issued by public bodies: | | | | |
| Government securities | 7,496 | 819 | 8,315 | 7,570 |
| Other public sector securities | 476 | – | 476 | 478 |
| | 7,972 | 819 | 8,791 | 8,048 |
| Issued by banks: | | | | |
| Certificates of deposit | 4,086 | 65 | 4,151 | 4,072 |
| Other debt securities | 5,215 | 353 | 5,568 | 5,212 |
| | 9,301 | 418 | 9,719 | 9,284 |
| Issued by other issuers: | | | | |
| Bills discountable with recognised markets | – | 17 | 17 | – |
| Other debt securities | 3,528 | 1,086 | 4,614 | 3,489 |
| | 3,528 | 1,103 | 4,631 | 3,489 |
| Total debt securities | 20,801 | 2,340 | 23,141 | 20,821 |
| Of which: | | | | |
| Listed on a recognised UK exchange | 5,855 | – | 5,855 | 5,846 |
| Listed elsewhere | 5,298 | 957 | 6,255 | 5,301 |
| Unlisted | 9,648 | 1,383 | 11,031 | 9,674 |
| | 20,801 | 2,340 | 23,141 | 20,821 |
| Book amount investment securities: | | | | |
| One year or less | 10,993 | | | |
| One to five years | 8,445 | | | |
| More than five years | 1,363 | | | |
| | 20,801 | | | |

Debt securities include $1,068 million (2003: $559 million) of securities sold subject to sale and repurchase transactions, and $114 million (2003: $698 million) which are subordinated to the claims of other parties.

The valuation of listed investments is at market value and of unlisted investments at directors' estimate.

The change in the book amount of debt securities held for investment purposes comprised:

| | Historical cost $million | Amortisation of discounts/ premiums $million | Book amount $million |
|---|---|---|---|
| At 1 January 2004 | 20,791 | 10 | 20,801 |
| Exchange translation differences | (35) | 19 | (16) |
| Acquisitions | 75,353 | – | 75,353 |
| Maturities and disposals | (71,499) | 47 | (71,452) |
| Amortisation of discounts and premiums | – | 23 | 23 |
| At 31 December 2004 | 24,610 | 99 | 24,709 |

At 31 December 2004, unamortised premiums on debt securities held for investment purposes amounted to $135 million (2003: $163 million) and unamortised discounts amounted to $356 million (2003: $366 million).

## 21. Equity Shares and Other Variable Yield Securities

| | 2004 Book amount Investment securities $million | 2004 Valuation Investment securities $million | 2003 Book amount Investment securities $million | 2003 Valuation Investment securities $million |
|---|---|---|---|---|
| Listed on a recognised UK exchange | – | – | 1 | 1 |
| Listed elsewhere | 88 | 107 | 261 | 353 |
| Unlisted | 165 | 188 | 97 | 97 |
| | 253 | 295 | 359 | 451 |
| One year or less | 10 | 10 | 14 | 14 |
| One to five years | 35 | 35 | 40 | 44 |
| More than five years | 1 | 1 | – | – |
| Undated | 207 | 249 | 305 | 393 |
| | 253 | 295 | 359 | 451 |

The valuation of listed securities is at market value and of unlisted securities at directors' estimate.

Income from listed equity shares amounted to $4 million (2003: $5 million) and income from unlisted equity shares amounted to $7 million (2003: $9 million).

The change in the book amount of equity shares held for investment purposes comprised:

| | Historical cost $million | Provisions $million | Book amount $million |
|---|---|---|---|
| At 1 January 2004 | 398 | (39) | 359 |
| Exchange translation differences | 2 | (1) | 1 |
| Acquisitions | 121 | – | 121 |
| Disposals | (207) | (7) | (214) |
| Other | (13) | (1) | (14) |
| At 31 December 2004 | 301 | (48) | 253 |

## 22. Investments in Subsidiary Undertakings

| | Historical cost $million | Revaluation reserve $million | Loans $million | Total* $million |
|---|---|---|---|---|
| At 1 January 2004 previously published | 4,243 | 3,662 | 1,568 | 9,473 |
| Prior year adjustment (note 54) | – | (186) | – | (186) |
| At 1 January 2004 restated | 4,243 | 3,476 | 1,568 | 9,287 |
| Exchange translation differences | 2 | – | 20 | 22 |
| Increase in net assets of subsidiary undertakings | – | 932 | – | 932 |
| Disposals | (1) | – | – | (1) |
| At 31 December 2004 | 4,244 | 4,408 | 1,588 | 10,240 |

*Comparative restated (see note 54 on page 118).

## 22. Investments in Subsidiary Undertakings continued

At 31 December 2004, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

| Country and place of incorporation or registration | Main areas of operation | Group interest in ordinary share capital |
|---|---|---|
| Standard Chartered Bank, England and Wales | United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa | 100% |
| Standard Chartered Bank Malaysia Berhad, Malaysia | Malaysia | 100% |
| Standard Chartered Bank (Hong Kong) Limited, Hong Kong | Hong Kong | 100% |
| Standard Chartered Nakornthon Bank Public Company Limited,Thailand | Thailand | 75% |
| Standard Chartered Capital Management (Jersey) LLC, United States | United States | 100% |
| Standard Chartered Receivables (UK) Limited, England and Wales | United Kingdom | 100% |
| Standard Chartered Financial Investments Limited, England and Wales | United Kingdom | 100% |
| Standard Chartered Debt Trading Limited, England and Wales | United Kingdom | 100% |

Details of all Group companies will be filed with the next annual return of the Company.

## 23. Business Acquisitions

Summary of the cash flow effects of acquisitions of subsidiary undertakings, joint ventures and businesses

| | Book value at date of acquisition $million | Fair value adjustments $million | Revaluations $million | Fair value at date of acquisition $million |
|---|---|---|---|---|
| Tangible fixed assets | 12 | (1) | – | 11 |
| Loans and advances to banks and customers | 1,518 | – | – | 1,518 |
| Treasury bills and other eligible bills | 131 | – | – | 131 |
| Equity shares | (18) | – | – | (18) |
| Interests in joint ventures | 192 | – | – | 192 |
| Cash and balances at central banks | 26 | – | – | 26 |
| Other assets | 90 | (8) | – | 82 |
| Total assets | 1,951 | (9) | – | 1,942 |
| Deposits by banks and customer accounts | 940 | – | – | 940 |
| Other liabilities | 754 | – | – | 754 |
| Total liabilities | 1,694 | – | – | 1,694 |
| Net assets | | | | 248 |
| Minority interests | | | | (8) |
| Goodwill | | | | 93 |
| | | | | 333 |
| Consisting of: | | | | |
| Cash | | | | 328 |
| Acquisition costs | | | | 5 |
| | | | | 333 |

## 23. Business Acquisitions continued

| | Total $million |
|---|---|
| Post acquisition profit after taxation | 6 |
| Cash flow effects of acquisitions: | |
| Net cash outflow from operating activities | 2 |
| | 2 |
| Purchase of interests in subsidiary undertakings: | |
| Cash and acquisition costs | 333 |
| Cash acquired | (26) |
| | 307 |

Fair value adjustments for consistent accounting policies principally relate to alignment of policies on depreciation of tangible fixed assets and measurement of credit risk.

Acquisitions in the table above include the additional 25 per cent stake in Standard Chartered Bank Nepal Limited, 100 per cent ownership of Advantage Limited, the 31.555 per cent stake in PT Bank Permata Tbk, and the ANZ Project Finance business (excluding Australia and Non-Japan Asia).

The effective date of acquisition of the additional 25 per cent stake in Standard Chartered Bank Nepal Limited was 19 August 2004. The acquisition has been accounted for using the acquisition method. Purchased goodwill is being amortised over 10 years. The post-acquisition profit after taxation and minority interests was $1 million.

The effective date of acquisition of Advantage Limited ('Advantage') was 27 August 2004. It has been accounted for using the acquisition method. Purchased goodwill is being amortised over 10 years. The post acquisition profit after taxation of Advantage was $4 million.

The total consideration payable for the shares in Advantage was HKD 980 million, calculated as a multiple of the audited net book value of Advantage as at 30 June 2004, adjusted to reflect the current market value of certain properties and any shortfall in the net assets of an associated company ('Consideration'). A deposit of HKD 100 million was paid by Standard Chartered Links (Hong Kong) Limited on signing of the Agreement on 28 June 2004. An amount equal to 90 per cent of the Consideration (less the deposit) was paid in cash on completion of the Agreement with the balance payable on 31 December 2005. The consideration will be fully funded from the Group's internal resources.

The effective date of acquisition of PT Bank Permata Tbk was 10 December 2004. It has been accounted for using the acquisition method. Purchased goodwill is being amortised over 20 years. The acquisition is being equity accounted as a joint venture. The Group's share of post acquisition profits after amortisation of goodwill and taxation was $2 million.

The effective date of acquisition of the ANZ Project Finance business (excluding Australia and Non-Japan Asia) was 10 December 2004. It has been accounted for using the acquisition method. Purchased goodwill is being amortised over 10 years. The post-acquisition loss after taxation was $1 million, including integration expenses of $2 million and amortisation of goodwill.

## 24. Intangible Fixed Assets

| | Goodwill $million |
|---|---|
| **Cost** | |
| At 1 January 2004 | 2,500 |
| Movements during the year | 95 |
| At 31 December 2004 | 2,595 |
| **Provisions for amortisation** | |
| At 1 January 2004 | 514 |
| Amortisation charged in the year | 181 |
| At 31 December 2004 | 695 |
| **Net book value at 31 December 2004** | **1,900** |
| Net book value at 31 December 2003 | 1,986 |

## 24. Intangible Fixed Assets continued

Purchased goodwill in respect of acquisitions post 1 January 1998 is being amortised on a straight-line basis over a period of between 10 and 20 years. Prior to 1998 purchased goodwill was written off through reserves in the year of acquisition. Movements during the year related to the acquisition of PrimeCredit, Standard Chartered Bank Nepal Limited and the ANZ Project Finance business.

## 25. Tangible Fixed Assets

| | Premises $million | Equipment $million | Total $million |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2004 | 605 | 894 | 1,499 |
| Exchange translation differences | 7 | 13 | 20 |
| Additions | 131 | 109 | 240 |
| Disposals and fully depreciated assets written off | (67) | (182) | (249) |
| Other | 9 | 1 | 10 |
| At 31 December 2004 | 685 | 835 | 1,520 |
| **Depreciation** | | | |
| Accumulated at 1 January 2004 | 129 | 486 | 615 |
| Exchange translation differences | 2 | 9 | 11 |
| Charge for the year | 40 | 199 | 239 |
| Attributable to assets sold or written off | (21) | (177) | (198) |
| Other | 2 | 5 | 7 |
| Impairment | 2 | – | 2 |
| Accumulated at 31 December 2004 | 154 | 522 | 676 |
| **Net book value at 31 December 2004** | **531** | **313** | **844** |
| Net book value at 31 December 2003 | 476 | 408 | 884 |

| | 2004 $million | 2003 $million |
|---|---|---|
| **Premises – analysis of net book value** | | |
| Freehold | 140 | 153 |
| Long leasehold | 75 | 75 |
| Short leasehold | 316 | 248 |
| | 531 | 476 |
| **Premises – cost or valuation** | | |
| At cost | 289 | 197 |
| At valuations made: | | |
| 1999 | 13 | 13 |
| 2002 | 383 | 395 |
| | 685 | 605 |
| **On the historical cost basis, the book amount of premises amounted to:** | | |
| Cost | 731 | 660 |
| Accumulated depreciation | (179) | (166) |
| Net book value | 552 | 494 |

Valuations were carried out on an open market existing use basis by the directors based upon the advice of independent qualified professional valuers. The net book value of premises occupied by the Group for its own activities at 31 December 2004 was $454 million (2003: $476 million). Cost or valuation of premises subject to depreciation at 31 December 2004 was $595 million (2003: $499 million).

## 26. Future Rental Commitments Under Operating Leases

The Group's future annual rental commitments under operating leases are as follows:

| | 2004 Premises $million | 2004 Equipment $million | 2003 Premises $million | 2003 Equipment $million |
|---|---|---|---|---|
| Annual rental on operating leases expiring: | | | | |
| Within one year | 14 | 1 | 10 | 6 |
| Between one and five years | 27 | 1 | 35 | 4 |
| Five years or more | 19 | – | 26 | – |
| | 60 | 2 | 71 | 10 |

The majority of leases relating to premises are subject to rent reviews.

## 27. Other Assets

| | 2004 $million | 2003* $million |
|---|---|---|
| Mark-to-market adjustments arising on foreign exchange and interest rate contracts | 7,318 | 7,778 |
| Hong Kong SAR Government certificates of indebtedness (note 32 and note 43) | 2,532 | 2,249 |
| Assets awaiting sale | 4 | 1 |
| Deferred taxation (note 33) | 276 | 290 |
| Other | 1,599 | 1,678 |
| | 11,729 | 11,996 |

*Comparative restated (see note 54 on page 118).

The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties.

## 28. Deposits by Banks

| | 2004 $million | 2003 $million |
|---|---|---|
| Repayable on demand | 2,588 | 3,894 |
| With agreed maturity dates or periods of notice, by residual maturity: | | |
| Three months or less | 8,963 | 5,057 |
| Between three months and one year | 2,268 | 1,502 |
| Between one and five years | 1,994 | 446 |
| Over five years | – | 25 |
| | 15,813 | 10,924 |

The deposits by banks over five years at 31 December 2003 are on a fixed rate charge. $6 million is charged at 3 per cent and $19 million at 5.56 per cent.

## 29. Customer Accounts

| | 2004 $million | 2003 $million |
|---|---|---|
| Repayable on demand | **36,862** | 31,619 |
| With agreed maturity dates or periods of notice, by residual maturity: | | |
| Three months or less | **40,842** | 35,789 |
| Between three months and one year | **5,626** | 5,615 |
| Between one and five years | **1,204** | 742 |
| Over five years | **38** | 2 |
| | **84,572** | 73,767 |

## 30. Debt Securities in Issue

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million |
| By residual maturity: | | | | | | |
| Three months or less | **1,707** | **1,834** | **3,541** | 1,711 | 612 | 2,323 |
| Between three and six months | **701** | **206** | **907** | 487 | 52 | 539 |
| Between six months and one year | **637** | **475** | **1,112** | 1,030 | 59 | 1,089 |
| Between one and five years | **1,013** | **724** | **1,737** | 1,552 | 459 | 2,011 |
| Over five years | **21** | **60** | **81** | 13 | 87 | 100 |
| | **4,079** | **3,299** | **7,378** | 4,793 | 1,269 | 6,062 |

## 31. Structure of Deposits

The following table sets out the structure of the Group's deposits by principal geographic regions where it operates at 31 December 2004 and 31 December 2003:

| | 2004 $million | 2003 $million |
|---|---|---|
| Deposits by banks (note 28) | **15,813** | 10,924 |
| Customer accounts (note 29) | **84,572** | 73,767 |
| Debt securities in issue (note 30) | **7,378** | 6,062 |
| | **107,763** | 90,753 |

**2004**

| | Asia Pacific | | | | | MESA | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong $million | Singapore $million | Malaysia $million | Other Asia Pacific $million | India $million | UAE $million | Other Middle East & Other South Asia $million | Africa $million | Americas, UK & Group Head Office $million | Total $million |
| Non-interest bearing current and demand accounts | **3,602** | **2,040** | **989** | **1,228** | **1,224** | **1,114** | **1,146** | **1,159** | **16** | **12,518** |
| Interest bearing current and demand accounts | **15,300** | **2,329** | **130** | **2,831** | **2** | **661** | **429** | **1,603** | **3,920** | **27,205** |
| Savings deposits | **24** | **528** | **437** | **1,715** | **970** | **249** | **1,350** | **512** | **9** | **5,794** |
| Time deposits | **13,155** | **9,847** | **3,423** | **6,189** | **3,441** | **2,529** | **1,657** | **679** | **10,410** | **51,330** |
| Other deposits | **2** | **50** | **569** | **894** | **2** | **187** | **215** | **69** | **1,550** | **3,538** |
| Total | **32,083** | **14,794** | **5,548** | **12,857** | **5,639** | **4,740** | **4,797** | **4,022** | **15,905** | **100,385** |
| Deposits by banks (note 28) | **1,204** | **3,150** | **813** | **3,361** | **1,109** | **1,007** | **355** | **110** | **4,704** | **15,813** |
| Customer accounts (note 29) | **30,879** | **11,644** | **4,735** | **9,496** | **4,530** | **3,733** | **4,442** | **3,912** | **11,201** | **84,572** |
| | **32,083** | **14,794** | **5,548** | **12,857** | **5,639** | **4,740** | **4,797** | **4,022** | **15,905** | **100,385** |
| Debt securities in issue (note 30) | **1,508** | **758** | **401** | **1,063** | **387** | **–** | **–** | **1** | **3,260** | **7,378** |
| Total | **33,591** | **15,552** | **5,949** | **13,920** | **6,026** | **4,740** | **4,797** | **4,023** | **19,165** | **107,763** |

2003

| | Asia Pacific | | | | | MESA | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong $million | Singapore $million | Malaysia $million | Other Asia Pacific $million | India $million | UAE $million | Other Middle East & Other South Asia $million | Africa $million | Americas, UK & Group Head Office $million | Total $million |
| Non-interest bearing current and demand accounts | 2,997 | 1,814 | 781 | 944 | 1,049 | 775 | 920 | 867 | 433 | 10,580 |
| Interest bearing current and demand accounts | 14,294 | 1,538 | 94 | 1,906 | 3 | 599 | 325 | 991 | 3,863 | 23,613 |
| Savings deposits | 22 | 492 | 453 | 978 | 786 | 214 | 1,080 | 520 | 4 | 4,549 |
| Time deposits | 12,671 | 7,751 | 2,833 | 4,993 | 2,987 | 2,108 | 1,480 | 749 | 8,105 | 43,677 |
| Other deposits | 16 | 45 | 593 | 803 | 230 | 169 | 246 | 150 | 20 | 2,272 |
| Total | 30,000 | 11,640 | 4,754 | 9,624 | 5,055 | 3,865 | 4,051 | 3,277 | 12,425 | 84,691 |
| Deposits by banks (note 28) | 1,097 | 921 | 733 | 1,725 | 1,234 | 955 | 305 | 160 | 3,794 | 10,924 |
| Customer accounts (note 29) | 28,903 | 10,719 | 4,021 | 7,899 | 3,821 | 2,910 | 3,746 | 3,117 | 8,631 | 73,767 |
| | 30,000 | 11,640 | 4,754 | 9,624 | 5,055 | 3,865 | 4,051 | 3,277 | 12,425 | 84,691 |
| Debt securities in issue (note 30) | 2,068 | 346 | 351 | 783 | 87 | – | – | 1 | 2,426 | 6,062 |
| Total | 32,068 | 11,986 | 5,105 | 10,407 | 5,142 | 3,865 | 4,051 | 3,278 | 14,851 | 90,753 |

## 32. Other Liabilities

| | 2004 $million | 2003* $million |
|---|---|---|
| Mark-to-market adjustments arising on foreign exchange and interest rate contracts | **7,077** | 7,792 |
| Notes in circulation (note 27 and note 43) | **2,532** | 2,249 |
| Short positions in treasury bills | **2** | 73 |
| Short positions in debt securities | **751** | 461 |
| Current taxation | **295** | 225 |
| Proposed dividend | **532** | 439 |
| Other liabilities | **5,172** | 2,745 |
| | **16,361** | 13,984 |

*Comparative restated (see note 54 on page 118).

Short positions in treasury bills and short positions in debt securities are stated at market value.

## 33. Deferred Taxation

| | 2004 $million | 2003 $million |
|---|---|---|
| Deferred taxation comprises: | | |
| Accelerated tax depreciation | **(7)** | 14 |
| Provisions for bad debts | **(144)** | (180) |
| Tax losses carried forward | **(5)** | (19) |
| Premises revaluation | **(5)** | (1) |
| Unrealised foreign tax | **(21)** | (8) |
| Pension | **(46)** | (48) |
| Other timing differences | **(94)** | (97) |
| | **(322)** | (339) |
| Changes in deferred taxation balances during the year comprised: | | |
| At 1 January | **(339)** | (236) |
| Exchange translation differences | **(14)** | (21) |
| Origination/reversal of timing differences | **25** | (1) |
| Credit to profit | **(1)** | – |
| Impact of FRS17 restatement (note 54) | **–** | (68) |
| Other | **7** | (13) |
| At 31 December | **(322)** | (339) |

$276 million (2003: $290 million) of the net deferred tax asset is included in other assets (note 27), the balance of $46 million (2003: $49 million) is included in pension and post-retirement net of deferred tax (see note 6).

| | 2004 $million | 2003 $million |
|---|---|---|
| No account has been taken of the following potential deferred taxation assets/(liabilities): | | |
| Tax losses carried forward | **4** | 26 |
| Provisions for bad debts | **20** | 20 |
| Other | **35** | 10 |
| Unrelieved foreign tax | **178** | 143 |
| Premises revaluation | **(16)** | (16) |

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future. As it is expected that substantially all such assets will be retained by the Group, it is considered that no useful purpose would be served by attempting to quantify the unprovided potential liability.

## 34. Provisions for Liabilities and Charges

| | Provision for contingent liabilities and commitments $million | Other provisions $million | Total $million |
|---|---|---|---|
| At 1 January 2004 | 41 | 5 | 46 |
| Exchange translation differences | 4 | – | 4 |
| Charge against profit | – | 14 | 14 |
| Provisions utilised | – | (6) | (6) |
| Other | 7 | (6) | 1 |
| At 31 December 2004 | 52 | 7 | 59 |

## 35. Pension and Post Retirement Liabilities (net of deferred tax)

| | 2004 $million |
|---|---|
| At 1 January 2004 | (74) |
| Prior year adjustment (see note 54) | 202 |
| | 128 |
| Exchange translation differences | 9 |
| Change against profit | 82 |
| Provision utilised | (110) |
| Other | 11 |
| At 31 December 2004 | 120 |

Included in Pension and Post Retirement Liabilities is $10 million (2003: $4 million) relating to defined contribution plans.

## 36. Subordinated Loan Capital

| | 2004 $million | 2003* $million |
|---|---|---|
| **Undated – Company** | | |
| Primary Capital Floating Rate Notes: | | |
| $400 million | 400 | 400 |
| $300 million (Series 2) | 300 | 300 |
| $400 million (Series 3) | 400 | 400 |
| $200 million (Series 4) | 200 | 200 |
| £150 million | 288 | 268 |
| **Undated subordinated loan capital – Group** | 1,588 | 1,568 |
| **Dated – Subsidiary undertakings** | | |
| £30 million Floating Rate Notes 2009 | 57 | 53 |
| £300 million 6.75 per cent Notes 2009 | 517 | 480 |
| €600 million 5.375 per cent Notes 2009 | 730 | 676 |
| $25 million Floating Rate Notes 2004/2009 | – | 25 |
| BWP 75 million Floating Rate Notes 2012 | 18 | 17 |
| $325 million Floating Rate Notes 2005/2010 | 313 | 312 |
| €575 million 4.5 per cent Notes 2010 | 771 | 714 |
| $700 million 8.0 per cent subordinated Notes 2031 | 620 | 621 |
| €500 million 8.16 per cent non-cumulative Trust Preferred Securities 2010 | 674 | 624 |
| £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities | 572 | 531 |
| £200 million Step-Up Notes 2022 | 373 | 346 |
| $350 million 4.375 per cent Notes 2014 (Floating rate from 2009) | 350 | – |
| HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009) | 64 | – |
| HKD 670 million Floating Rate Notes 2014 | 85 | – |
| **Dated subordinated loan capital – Group** | 5,144 | 4,399 |
| **Dated subordinated loan capital – Repayable:** | | |
| Within one year | 1,084 | 25 |
| Between one and two years | – | 1,026 |
| Between two and five years | 1,805 | – |
| Over five years | 2,255 | 3,348 |
| **Dated subordinated loan capital – Group** | 5,144 | 4,399 |
| **Total subordinated liabilities** | 6,732 | 5,967 |

*Comparative restated (see note 54 on page 118).

All dated and undated loan capital described above is unsecured, unguaranteed and subordinated to the claims of other creditors including, without limitation, customer deposits and deposits by banks.

On 17 March 2000, the Group issued at par €575 million of 4.5 per cent Subordinated Guaranteed Convertible Bonds via a Jersey incorporated subsidiary, Standard Chartered Finance (Jersey) Ltd. The bondholders have the right to convert each bond (denominated in units of €1,000 face value) into one fully paid €1,000 Preference Share in Standard Chartered Finance (Jersey) Ltd at any time on or after 26 April 2000. These will be exchanged immediately for ordinary shares in Standard Chartered PLC at a price of 1,018.70 pence per ordinary share (the 'exchange price', which is subject to adjustment as set out in the offering circular). Unless previously redeemed, purchased and cancelled or converted, bonds will be redeemed on 30 March 2010, although they may be redeemed at Standard Chartered's option after 15 April 2005. They may be redeemed earlier if 85 per cent of the bonds have been converted.

On 11 May 2001, the Group issued Tier 1 Capital £300 million of 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities. These are redeemable at the option of Standard Chartered Bank ('the Bank') on 11 May 2016 or on any coupon payment date thereafter. Dividends are set at a rate of 8.103 per cent per annum until 2016. Thereafter they will be reset every five years as the aggregate of 4.275 per cent and the five year benchmark gilt-rate. The preferred securities may, at the Bank's option, be either exchanged or their terms varied so that they become Upper Tier 2 securities, upon the occurrence of certain tax or regulatory events.

## 36. Subordinated Loan Capital continued

On 22 March 2000, the Group issued Tier 1 Capital €500 million of 8.16 per cent Non-cumulative Trust Preferred Securities in Standard Chartered Capital Trust LLP, a Delaware statutory business trust, representing a corresponding amount of 8.16 per cent Non-cumulative Partnership Preferred Securities of Standard Chartered Capital LLP, a Delaware limited partnership in which Standard Chartered Bank ('the Bank') is the general partner. The securities may be redeemed at the option of the Bank in its capacity as general partner of the Partnership in whole or (in certain circumstances) in part on 23 March 2010 or in whole or in part on any dividend payment date thereafter. Dividends are fixed at 8.16 per cent for ten years and at Euribor plus 3.8 per cent thereafter. The securities will be exchanged for preference shares in Standard Chartered PLC in the event that they have not been redeemed by 2045, the Bank's or Group's total capital ratio is less than the regulatory minimum or the Partnership is liquidated. The holders of the securities will have the right, subject to the Partnership's right of redemption, to exchange their securities for the cash proceeds of a sale of ordinary shares of Standard Chartered PLC on 23 March 2010.

On 30 October 2000, the Group issued £200 million Undated Subordinated Step-Up Notes. These are redeemable at the option of the Bank at par on 31 January 2022. The coupon is 7.75 per cent fixed until 31 January 2022, when the rate will be re-fixed.

The Group policy is to manage its capital actively. During 2002 the Group bought back a portion of its subordinated debt issues on the open market. The amounts stated are net of the repurchases.

On 3 December 2004, the Group issued $350 million notes at 99.938 per cent. Interest is payable on the notes at 4.375 per cent Fixed Rate to, but excluding, 4 December 2009 and at Floating Rate thereafter. All of the notes may be redeemed by the Group on any interest payment date from and including 4 December 2009. There is not an option to redeem anything less than 100 per cent of the notes. The notes will mature on 3 December 2014.

On 3 December 2004, the Group issued HKD 670 million Floating Rate Notes at par. Interest is payable at HIBOR plus 37 basis points up until 4 December 2009, when the rate increases to HIBOR plus 87 basis points. All of the Notes may be redeemed by the Group on the interest payment date on 4 December 2009. There is not an option to redeem anything less than 100 per cent of the notes. The notes will mature on 3 December 2014.

On 3 December 2004, the Group issued HKD 500 million notes at 99.886 per cent. Interest is payable on the notes at 3.50 per cent Fixed Rate to, but excluding, the interest payment date on 4 December 2009 and at Floating Rate thereafter. All of the notes may be redeemed by the Group on the interest payment date falling in December 2009. There is not an option to redeem anything less than 100 per cent of the notes. The notes will mature on 3 December 2014.

$25 million Floating Rate Notes 2004/2009 were redeemed in July 2004.

On 3 February 2005, the Group issued €750 million subordinated Lower Tier II notes ('Euro Notes') at an issue price of 99.43 per cent and $500 million subordinated Lower Tier II notes ('Dollar Notes') at an issue price of 99.86 per cent. Interest is payable annually on the Euro Notes at a fixed rate of 3.625 per cent until 3 February 2012 when variable rate interest of 3 month Euribor plus 87 basis points will be paid. The Euro Notes will mature on 3 February 2017. The Euro Notes are callable on 3 February 2012 and at each subsequent interest date. Interest is payable quarterly on the Dollar Notes at a variable rate of US$ Libor plus 30 basis points until 4 February 2010 when the rate will increase to Libor plus 80 basis points. The Dollar Notes will mature on 3 February 2015. The Dollar Notes are callable on 4 February 2010 and at each subsequent interest date.

## 37. Minority Interests

The change in minority shareholders' interests in subsidiary undertakings comprised:

| | Equity $million | Non equity $million | Total $million |
|---|---|---|---|
| At 1 January 2004 | 83 | 531 | 614 |
| Exchange translation differences | 1 | 10 | 11 |
| Additions | – | 294 | 294 |
| Retained profits | 15 | 10 | 25 |
| Other | 12 | – | 12 |
| At 31 December 2004 | 111 | 845 | 956 |

Non equity minority interests include third party investments in the Global Liquidity Fund.

## 38. Called-up Share Capital

### Authorised

The authorised share capital of the Company at 31 December 2004 was $5,137 million (2003: $4,971 million) made up of 2,632 million ordinary shares of $0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of $5 each and one million non-cumulative preference shares of €1,000 each.

| | Preference shares of $5 each Number of shares ('000) | Preference shares of £1 each Number of shares ('000) | Ordinary shares of $0.50 each Number of shares ('000) | Total $million |
|---|---|---|---|---|
| **Allotted, called-up and fully paid** | | | | |
| At 1 January 2004 | 331 | 195,285 | 1,174,818 | 939 |
| Exchange translation differences | – | – | – | 26 |
| Issued instead of dividends | – | – | 2,979 | 1 |
| Issued under employee share option schemes | – | – | 1,272 | 1 |
| At 31 December 2004 | 331 | 195,285 | 1,179,069 | 967 |

On 14 May 2004, 2,066,122 ordinary shares were issued instead of the 2003 final dividend. On 8 October 2004, 912,977 ordinary shares were issued instead of the 2004 interim dividend.

At the AGM in May 2004 the shareholders authorised the Company to buy back up to 117,487,333 of the Company's ordinary shares. This was approximately ten per cent of the issued ordinary share capital as at 23 February 2004. In addition, the shareholders authorised the Company to buy back up to all of the Company's issued preference share capital. Neither the Company nor any of its subsidiaries bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during 2004.

During 2003, the Company repurchased 9,486 8.9 per cent non-cumulative redeemable preference shares of $5 each at prices between $1,112.50 and $1,140.52. The total premium paid on the repurchase was $10.7 million. The repurchased shares were cancelled leaving 331,388 $5 preference shares in issue.

During 2003, the Company repurchased 3,965,000 7⅜ per cent non-cumulative irredeemable preference shares of £1 each at prices between £1.12875 and £1.13. The total premium paid on the repurchase was $0.9 million. The repurchased shares were cancelled leaving 96,035,000 7⅜ per cent preference shares in issue.

During 2003, the Company repurchased 750,000 8¼ per cent non-cumulative irredeemable preference shares of £1 each at £1.22875. The total premium paid on the repurchase was $0.3 million. The repurchased shares were cancelled leaving 99,250,000 8¼ per cent preference shares in issue.

On 10 January 2005, the Company placed 117,902,943 new ordinary shares of $0.50 each at a price of 920 pence per share representing approximately 9.99 per cent of the Company's existing issued ordinary share capital. The placees (comprising more than six in number) were professional and institutional investors, independent of and not connected with the Company and its subsidiaries and their respective associates. The shares were issued on 14 January 2005 raising net proceeds of approximately GBP 1,071 million ($2.1 billion), a net price per share of 908.5 pence. The market price of the Company's ordinary shares at close of business in London on 10 January 2005 was 928.5 pence. The shares that were issued had an aggregate nominal amount of $58,981,471.50.

The purpose of the share issue was to aid the funding of the purchase of the entire share capital of Korea First Bank for approximately KRW 3.4 trillion ($3.3 billion) in cash.

Subject to certain conditions, all or part of the 8.9 per cent non-cumulative preference shares of $5 each may be redeemed at the option of the issuer at dividend payment dates on or after October 2006.

The £1 and $5 preference shares carry the right to repayment of capital in the event of a winding up of the Company. They do not carry a right to vote at general meetings unless a dividend is unpaid or a resolution is proposed at the meeting to vary their rights.

Up to 117,481,806 ordinary shares of $0.50 each, being part of the authorised share capital, may be issued under the employee share schemes.

### 1984 and 1994 Executive Share Option Schemes

As at 1 January 2004, there were options outstanding over 3,765,364 ordinary shares under the schemes. During the year options over 343,010 ordinary shares lapsed and options over 1,169,405 ordinary shares were exercised at various prices from 256 pence to 888 pence. There were no options granted under these schemes during the year.

As at 31 December 2004, there were options outstanding over 2,252,949 ordinary shares which may be exercised on various dates up to 2009 under the rules of the schemes.

### Supplemental Executive Share Option Scheme

As at 1 January 2004, there were options outstanding over 833,946 ordinary shares under the scheme. During the year 454,127 options over ordinary shares lapsed and there were no exercises.

The exercise of these options will be linked to performance criteria.

As at 31 December 2004, there were options outstanding over 379,819 ordinary shares, which may be exercised on various dates up to 2005 under the scheme rules.

## 38. Called-up Share Capital continued

### 1997 Restricted Share Scheme

As at 1 January 2004, there were awards outstanding over 5,562,480 ordinary shares. During the year, awards over 1,491,198 ordinary shares were exercised and awards over 278,383 ordinary shares lapsed.

The following awards were made:

| Date award made | Number of shares awarded | Exercise period |
|---|---|---|
| 4 March 2004 | 1,362,674 | 2006–2011 |
| 14 September 2004 | 240,447 | 2006–2011 |

As at 31 December 2004, there were awards outstanding over 5,396,020 ordinary shares.

### 2000 Executive Share Option Scheme

As at 1 January 2004 there were options outstanding over 27,866,978 ordinary shares under the scheme. During the year options over 381,612 ordinary shares lapsed and 2,896,821 ordinary share options were exercised at various prices from 690.5 pence to 935.5 pence.

The following options were granted under the scheme:

| Date option granted | Option price per share | Number of shares under option | Exercise period |
|---|---|---|---|
| 4 March 2004 | 935.5p | 5,888,950 | 2007–2014 |
| 14 September 2004 | 958.0p | 230,476 | 2007–2014 |

The exercise of options granted during the year will be linked to performance criteria.

As at 31 December 2004, there were options outstanding over 30,707,971 ordinary shares which may be exercised at various dates up to 2014 under the rules of the scheme.

### 2001 Performance Share Plan

At 1 January 2004 there were awards outstanding over 2,633,754 ordinary shares.

The following awards were granted under the Plan:

| Date award granted | Number of shares under award | Exercise period |
|---|---|---|
| 4 March 2004 | 829,014 | 2007–2014 |
| 9 June 2004 | 171,011 | 2007–2014 |

The awards granted under the 2001 performance share plan are nil cost options. The exercise of awards granted during the year will be linked to performance criteria. During the year awards over 294,420 ordinary shares were exercised and awards over 272,402 ordinary shares lapsed.

At 31 December 2004 there were awards outstanding over 3,066,957 ordinary shares.

### Savings Related Share Option Schemes

### UK Schemes

At 1 January 2004, there were options outstanding over 1,532,663 ordinary shares under this scheme. During the year, options were exercised over 271,013 ordinary shares at prices from 334 pence to 723 pence and 146,220 options lapsed. The following options were granted under the scheme:

| Date option granted | Option price per share | Number of shares under option | Exercise period |
|---|---|---|---|
| 14 September 2004 | 743p | 265,550 | 2007–2010 |

At 31 December 2004, there were options outstanding over 1,380,980 ordinary shares, which may be exercised at various dates up to 2010 under the rules of the scheme.

### International Schemes

At 1 January 2004, there were 8,021,530 options outstanding under the scheme. During the year, 935,139 options lapsed. Options were exercised over 980,720 ordinary shares at prices from 334 pence to 723 pence and the following options were granted under the scheme:

| Date option granted | Option price per share | Number of shares under option | Exercise period |
|---|---|---|---|
| 14 September 2004 | 743p | 2,167,399 | 2007–2010 |

At 31 December 2004, there were options outstanding over 8,273,070 ordinary shares which may be exercised on various dates upto 2010 under the rules of the scheme.

## 39. Shareholders' Funds

| | Share capital $million | Share premium account $million | Capital reserve $million | Capital redemption reserve $million | Premises revaluation reserve $million | Profit and loss account $million | 2004 Total shareholders' funds $million | 2003* Total shareholders' funds $million |
|---|---|---|---|---|---|---|---|---|
| At 1 January as previously published | 939 | 2,813 | 5 | 11 | (2) | 4,009 | 7,775 | 7,327 |
| Prior year adjustment (note 54) | – | – | – | – | – | (186) | (186) | (149) |
| At 1 January restated | 939 | 2,813 | 5 | 11 | (2) | 3,823 | 7,589 | 7,178 |
| Exchange translation differences | 26 | – | – | – | – | 67 | 93 | 69 |
| Shares issued, net of expenses | 2 | 15 | – | – | – | 52 | 69 | 49 |
| Repurchase of preference shares | – | – | – | – | – | – | – | (20) |
| Actuarial loss on retirement benefits | – | – | – | – | – | (4) | (4) | (45) |
| Realised on disposal of property | – | – | – | – | (3) | 3 | – | – |
| Retained profit for the year | – | – | – | – | – | 696 | 696 | 358 |
| Capitalised on exercise of share options | – | 7 | – | – | – | (7) | – | – |
| At 31 December before deduction of own shares | 967 | 2,835 | 5 | 11 | (5) | 4,630 | 8,443 | 7,589 |
| Own shares held in ESOP Trusts | – | – | – | – | – | (8) | (8) | (60) |
| At 31 December after deduction of own shares | 967 | 2,835 | 5 | 11 | (5) | 4,622 | 8,435 | 7,529 |
| Equity interests | | | | | | | 7,759 | 6,880 |
| Non-equity interests | | | | | | | 676 | 649 |
| At 31 December | | | | | | | 8,435 | 7,529 |

*Comparative restated (see note 54 on page 118).

The cumulative amount of premiums on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (2003: $27 million). This excludes amounts in respect of businesses sold.

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

Bedell Cristin Trustees Limited is the trustee of both the 1995 Employees' Share Ownership Plan Trust ('the 1995 trust'), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and the Standard Chartered 2004 Employee Benefit Trust ('the 2004 trust') which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trusts. As part of these arrangements Group companies fund, from time to time, the trusts to enable the trustee to acquire shares to satisfy these awards.

The 1995 trust has acquired, at market value, 12,127,841 (2003: 9,513,386) Standard Chartered PLC shares which are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Performance Share Plan and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group.

At 31 December 2004, the 1995 trust held 12,127,841 (2003: 9,513,386) shares, of which 11,854,754 (2003: 4,733,884) have vested unconditionally. The balance of 273,087 (2003: 4,779,502) shares have been included in the Group balance sheet, as a deduction in shareholders' funds at a cost of $5 million (2003: $60 million). The market value of the unvested shares at 31 December 2004 was $5 million (2003: $79 million). 273,087 (4,585,901) shares have been conditionally gifted to employees.

The 2004 trust has acquired, at market value, 178,926 (2003: nil) Standard Chartered PLC shares which are held in a pool for the benefit of participants under the Group's deferred bonus plan. The purchase of these shares has been fully funded by the Group.

At 31 December 2004, the 2004 trust held 178,926 (2003: nil) shares, all of which were unvested. These shares have been included in the Group balance sheet, as a deduction in shareholders' funds, at cost of $3 million (2003: nil). The market value of the unvested shares at 31 December was $3 million. The shares are used to satisfy awards under the Group's deferred bonus plan.

## 40. Company Share Capital and Reserves

| | Share capital $million | Share premium account $million | Capital reserve $million | Capital redemption reserve $million | Revaluation reserve $million | Profit and loss account $million | 2004 Total shareholders' funds $million | 2003* Total shareholders' funds $million |
|---|---|---|---|---|---|---|---|---|
| At 1 January | 939 | 2,813 | 5 | 11 | 3,662 | 285 | 7,715 | 7,270 |
| Prior year adjustment (note 54) | – | – | – | – | (186) | – | (186) | (149) |
| | 939 | 2,813 | 5 | 11 | 3,476 | 285 | 7,529 | 7,121 |
| Exchange translation differences | 26 | – | – | – | – | (2) | 24 | 33 |
| Shares issued, net of expenses | 2 | 15 | – | – | – | 52 | 69 | 49 |
| Repurchase of preference shares | – | – | – | – | – | – | – | (20) |
| Increase in net assets of subsidiary undertakings | – | – | – | – | 932 | – | 932 | 505 |
| Profit for the year | – | – | – | – | – | 663 | 663 | 507 |
| Dividends paid and proposed | – | – | – | – | – | (782) | (782) | (666) |
| Capitalised on exercise of share options | – | 7 | – | – | – | (7) | – | – |
| At 31 December | 967 | 2,835 | 5 | 11 | 4,408 | 209 | 8,435 | 7,529 |
| Equity interests | | | | | | | 7,759 | 6,880 |
| Non-equity interests | | | | | | | 676 | 649 |
| At 31 December | | | | | | | 8,435 | 7,529 |

*Comparative restated (see note 54 on page 118).

## 41. Consolidated Cash Flow Statement

(a) Reconciliation between operating profit before taxation and net cash inflow from operating activities

| | 2004 $million | 2003* $million |
|---|---|---|
| Operating profit | 2,158 | 1,550 |
| Items not involving cash flow: | | |
| Amortisation of goodwill | 181 | 134 |
| Depreciation and amortisation of premises and equipment | 239 | 247 |
| Gain on disposal of tangible fixed assets | (4) | (14) |
| Gain on disposal of investment securities | (164) | (62) |
| Amortisation of investments | (41) | (107) |
| Charge for bad and doubtful debts and contingent liabilities | 214 | 536 |
| Amounts written off fixed asset investments | 1 | 11 |
| Debts written off, net of recoveries | (504) | (807) |
| Increase in accruals and deferred income | 59 | 201 |
| (Increase)/decrease in prepayments and accrued income | (165) | 80 |
| Adjustments for items shown separately: | | |
| Net increase in mark-to-market adjustment** | (259) | (403) |
| Interest paid on subordinated loan capital | 338 | 298 |
| **Net cash inflow from trading activities** | 2,053 | 1,664 |
| Net increase in cheques in the course of collection | (45) | (27) |
| Net increase in treasury bills and other eligible bills | (78) | (76) |
| Net (increase)/decrease in loans and advances to banks and customers | (16,216) | 2,398 |
| Net increase in deposits from banks, customer accounts and debt securities in issue | 14,927 | 2,128 |
| Net increase in dealing securities | (1,174) | (1,550) |
| Net increase/(decrease) in other accounts*** | 3,036 | (789) |
| **Net cash inflow from operating activities** | 2,503 | 3,748 |

*Comparative restated (see note 54 on page 118).

**Mark-to-market adjustments are being reclassified from the reconciliation to 'Net cash inflow from operating activities', to the reconciliation to 'Net cash inflow from trading activities' as this better reflects their impact on cash flows.

***This includes the effects of foreign exchange translation in the local books of subsidiaries and branches.

## 41. Consolidated Cash Flow Statement continued

### (b) Analysis of changes in cash

| | 2004 $million | 2003* $million |
|---|---|---|
| Balance at 1 January | 5,661 | 3,496 |
| Exchange translation differences | 56 | (7) |
| Net cash (outflow)/inflow | (1,366) | 2,172 |
| Balance at 31 December | 4,351 | 5,661 |

### (c) Analysis of cash

| | 2004 $million | 2003 $million |
|---|---|---|
| Cash and balances at central banks | 2,079 | 1,835 |
| Demand loans and advances to banks | 2,272 | 3,826 |
| | 4,351 | 5,661 |

### (d) Analysis of changes in financing during the year

| | 2004 | | | | | 2003* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital $million | Share premium $million | Capital reserve $million | Capital redemption reserve $million | Loan capital $million | Share capital $million | Share premium $million | Capital reserve $million | Capital redemption reserve $million | Loan capital $million |
| At 1 January | 939 | 2,813 | 5 | 11 | 5,967 | 909 | 2,764 | 5 | 3 | 5,455 |
| Exchange translation differences | 26 | – | – | – | 291 | 35 | – | – | – | 512 |
| Share capital issued, net of expenses | 2 | 15 | – | – | – | 3 | 46 | – | – | – |
| Repurchase of preferences shares | – | – | – | – | – | (8) | – | – | 8 | – |
| Capitalised on exercise of share options | – | 7 | – | – | – | – | 3 | – | – | – |
| Issue of subordinated loan capital, net of expenses | – | – | – | – | 499 | – | – | – | – | – |
| Repayment of subordinated liabilities | – | – | – | – | (25) | – | – | – | – | – |
| Balance at 31 December | 967 | 2,835 | 5 | 11 | 6,732 | 939 | 2,813 | 5 | 11 | 5,967 |

*Comparative restated (see note 54 on page 118).

## 42. Segmental Information

### By Geographic Segment

The following tables set out profit and loss information, average loans and advances to customers, net interest margin and selected balance sheet information by geographic segment for the years ended 31 December 2004 and 2003:

2004

| | Asia Pacific | | | | | MESA | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong $million | Singapore $million | Malaysia $million | Other Asia Pacific $million | India $million | UAE $million | Other Middle East & Other South Asia $million | Africa $million | Americas, UK & Group Head Office $million | Total $million |
| Interest receivable | 1,389 | 720 | 343 | 798 | 541 | 204 | 324 | 536 | 1,463 | 6,318 |
| Interest payable | (461) | (408) | (159) | (320) | (254) | (53) | (109) | (185) | (1,201) | (3,150) |
| **Net interest income** | 928 | 312 | 184 | 478 | 287 | 151 | 215 | 351 | 262 | 3,168 |
| Other finance income | 4 | 1 | – | – | – | – | – | 4 | 1 | 10 |
| Fees and commissions receivable, net | 324 | 114 | 51 | 197 | 111 | 87 | 116 | 153 | 181 | 1,334 |
| Dealing profits and exchange | 99 | 81 | 30 | 121 | 67 | 33 | 42 | 74 | 101 | 648 |
| Other operating income | 53 | 5 | 5 | 19 | 1 | – | 4 | 2 | 118 | 207 |
| **Net revenue** | 1,408 | 513 | 270 | 815 | 466 | 271 | 377 | 584 | 663 | 5,367 |
| Costs | (654) | (226) | (144) | (510) | (251) | (99) | (169) | (357) | (405) | (2,815) |
| Amortisation of goodwill | | | | | | | | | (181) | (181) |
| **Total operating expenses** | (654) | (226) | (144) | (510) | (251) | (99) | (169) | (357) | (586) | (2,996) |
| **Operating profit before provisions** | 754 | 287 | 126 | 305 | 215 | 172 | 208 | 227 | 77 | 2,371 |
| (Charge) for/release of debts | (125) | (33) | (2) | (40) | (22) | (1) | (1) | (12) | 22 | (214) |
| Amounts written off fixed asset investments | – | – | – | – | 2 | – | – | – | (3) | (1) |
| Income from joint venture | – | – | – | 2 | – | – | – | – | – | 2 |
| **Operating profit before taxation** | 629 | 254 | 124 | 267 | 195 | 171 | 207 | 215 | 96 | 2,158 |
| **Loans and advances to customers – average** | 21,608 | 10,414 | 5,272 | 7,932 | 3,779 | 2,582 | 3,718 | 1,834 | 7,421 | 64,560 |
| **Net interest margin (%)** | 2.2 | 1.6 | 2.4 | 2.5 | 3.6 | 2.6 | 3.5 | 7.6 | 0.6 | 2.7 |
| **Loans and advances to customers – period end** | 21,744 | 11,765 | 6,374 | 9,274 | 4,610 | 3,132 | 3,840 | 2,013 | 8,844 | 71,596 |
| **Loans and advances to banks – period end** | 2,852 | 2,399 | 480 | 3,554 | 325 | 535 | 932 | 510 | 7,335 | 18,922 |
| **Total assets employed** | 48,459 | 20,419 | 7,130 | 21,424 | 8,528 | 6,371 | 6,493 | 6,407 | 52,821 | 178,052 |
| **Total risk weighted assets and contingents** | 20,337 | 13,892 | 4,411 | 13,344 | 6,413 | 4,150 | 4,611 | 2,749 | 24,895 | 94,802 |

Total interest receivable and total interest payable include intra-group interest of $1,086 million. Total assets employed include intra-group items of $28,801 million and balances of $7,563 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include $2,678 million of balances which are netted in the note on Capital ratios on page 42 in accordance with regulatory guidelines.

In 2004 other operating income includes profits and losses arising from corporate decisions to dispose of investments in KorAm Bank ($95 million in Americas, UK & Group Head Office) and BOC Hong Kong (Holdings) Limited ($36 million in Hong Kong) and the premium on repurchase of surplus subordinated debt ($23 million in India). Costs include $18 million related to the incorporation of the Hong Kong business (Hong Kong) and the $5 million donation to the Tsunami relief effort (Malaysia, India, Other APR and Other MESA). These decisions resulted in non-recurring gains and charges of $85 million. They are included in the Geographical segmental information, but are not allocated to business in the business segmental information shown on page 110.

Group central expenses have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

## 42. Segmental Information continued

### By Geographic Segment

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment. The geographic segment is based on the location of the office.

| | | | | | | | | | | 2003* |
|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | MESA | | | | |
| | Hong Kong $million | Singapore $million | Malaysia $million | Other Asia Pacific $million | India $million | UAE $million | Other Middle East & Other South Asia $million | Africa $million | Americas, UK & Group Head Office $million | Total $million |
| Interest receivable | 1,473 | 621 | 318 | 700 | 513 | 215 | 291 | 409 | 1,182 | 5,722 |
| Interest payable | (531) | (287) | (145) | (300) | (258) | (71) | (94) | (161) | (907) | (2,754) |
| **Net interest income** | 942 | 334 | 173 | 400 | 255 | 144 | 197 | 248 | 275 | 2,968 |
| Other finance income | (3) | (2) | (1) | (1) | (2) | – | – | – | (4) | (13) |
| Fees and commissions receivable, net | 313 | 118 | 47 | 160 | 88 | 66 | 82 | 118 | 164 | 1,156 |
| Dealing profits and exchange | 96 | 43 | 12 | 109 | 60 | 24 | 33 | 65 | 83 | 525 |
| Other operating income | 7 | (7) | 4 | 13 | 65 | – | 3 | 12 | 7 | 104 |
| **Net revenue** | 1,355 | 486 | 235 | 681 | 466 | 234 | 315 | 443 | 525 | 4,740 |
| Costs | (618) | (210) | (136) | (429) | (212) | (91) | (145) | (282) | (386) | (2,509) |
| Amortisation of goodwill | | | | | | | | | (134) | (134) |
| **Total operating expenses** | (618) | (210) | (136) | (429) | (212) | (91) | (145) | (282) | (520) | (2,643) |
| **Operating profit before provisions** | 737 | 276 | 99 | 252 | 254 | 143 | 170 | 161 | 5 | 2,097 |
| (Charge) for/release of debts | (305) | (33) | 2 | (99) | (60) | (2) | 4 | (9) | (34) | (536) |
| Amounts written off fixed asset investments | – | – | – | – | (4) | – | – | – | (7) | (11) |
| **Operating profit/(loss) before taxation** | 432 | 243 | 101 | 153 | 190 | 141 | 174 | 152 | (36) | 1,550 |
| **Loans and advances to customers – average** | 21,428 | 8,624 | 4,329 | 6,675 | 2,811 | 1,929 | 3,328 | 1,416 | 7,249 | 57,789 |
| **Net interest margin (%)** | 2.4 | 1.8 | 2.5 | 2.4 | 4.0 | 3.4 | 3.8 | 6.7 | 0.8 | 2.8 |
| **Loans and advances to customers – period end** | 20,845 | 9,781 | 5,009 | 7,124 | 3,106 | 2,110 | 3,484 | 1,739 | 6,546 | 59,744 |
| **Loans and advances to banks – period end** | 2,113 | 1,045 | 204 | 2,784 | 239 | 605 | 889 | 308 | 5,167 | 13,354 |
| **Total assets employed** | 39,390 | 15,747 | 6,676 | 16,756 | 7,590 | 4,962 | 5,465 | 4,557 | 38,292 | 139,435 |
| **Total risk weighted assets and contingents** | 19,438 | 12,423 | 4,018 | 8,569 | 4,560 | 3,234 | 4,138 | 2,115 | 22,019 | 80,514 |

*Comparative restated (see note 54 on page 118).

Total interest receivable and total interest payable include intra-group interest of $932 million. Total assets employed include intra-group items of $11,726 million and balances of $7,507 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include $2,352 million of balances which are netted in the note on Capital ratios on page 42 in accordance with regulatory guidelines.

Group central expenses and other overhead costs have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment.

The geographic segment is based on the location of the office.

## 42. Segmental Information continued

By Class of Business

| | 2004 | | | | 2003* | | | |
|---|---|---|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Corporate items not allocated $million | Total $million | Consumer Banking $million | Wholesale Banking $million | Corporate items not allocated $million | Total $million |
| Net interest income | 1,952 | 1,216 | – | 3,168 | 1,830 | 1,138 | – | 2,968 |
| Other finance income | 3 | 7 | – | 10 | (4) | (9) | – | (13) |
| Other income | 738 | 1,343 | 108 | 2,189 | 662 | 1,123 | – | 1,785 |
| Net revenue | 2,693 | 2,566 | 108 | 5,367 | 2,488 | 2,252 | – | 4,740 |
| Costs | (1,388) | (1,404) | (23) | (2,815) | (1,259) | (1,250) | – | (2,509) |
| Amortisation of goodwill | – | – | (181) | (181) | – | – | (134) | (134) |
| Total operating expenses | (1,388) | (1,404) | (204) | (2,996) | (1,259) | (1,250) | (134) | (2,643) |
| Operating profit before provisions | 1,305 | 1,162 | (96) | 2,371 | 1,229 | 1,002 | (134) | 2,097 |
| Charge for debts | (242) | 28 | – | (214) | (478) | (58) | – | (536) |
| Amount written off fixed asset investments | – | (1) | – | (1) | – | (11) | – | (11) |
| Income from joint venture | 1 | 1 | – | 2 | | | | |
| Operating profit/(loss) before taxation | 1,064 | 1,190 | (96) | 2,158 | 751 | 933 | (134) | 1,550 |
| Total assets employed | 37,047 | 104,641 | – | 141,688 | 33,890 | 86,312 | – | 120,202 |
| Total risk weighted assets and contingents | 28,069 | 64,055 | – | 92,124 | 24,253 | 53,909 | – | 78,162 |

* Prior period has been restated to net down intra group items. Please also refer to note 54 on page 118.

For the segmental information given above, Group central expenses and other overhead costs have been distributed between classes of business in proportion to their direct costs and the benefit of the Group's capital has been distributed between classes of business in proportion to their risk weighted assets. Assets held at the centre have been distributed between classes of businesses in proportion to their total assets employed.

## 43. Secured Liabilities

| | 2004 $million | 2003 $million |
|---|---|---|
| Notes in circulation (note 27 and note 32) | 2,532 | 2,249 |

The notes in circulation were secured by the deposit of funds of $2,532 million (2003: $2,249 million) in respect of which Hong Kong SAR Government certificates of indebtedness are held (note 27 and note 32).

## 44. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

| | 2004 $million | 2003 $million |
|---|---|---|
| Contracted | 6 | 4 |
| Not contracted | 2 | 5 |

## 45. Assets and Liabilities in Currencies other than US Dollar

| | 2004 $million | 2003* $million |
|---|---|---|
| Total assets denominated in: | | |
| US dollar | **33,872** | 33,668 |
| Other currencies | **107,816** | 86,534 |
| | **141,688** | 120,202 |
| Total liabilities denominated in: | | |
| US dollar | **44,070** | 41,331 |
| Other currencies | **97,618** | 78,871 |
| | **141,688** | 120,202 |

*Comparative restated (see note 54 on page 118).

## 46. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk. The credit equivalent and risk weighted amounts have been calculated in accordance with the Financial Services Authority's guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Contract or underlying principal amount $million | Credit equivalent amount $million | Risk weighted amount $million | Contract or underlying principal amount $million | Credit equivalent amount $million | Risk weighted amount $million |
| **Contingent liabilities** | | | | | | |
| Acceptances and endorsements | **976** | **976** | **842** | 716 | 716 | 535 |
| Guarantees and irrevocable letters of credit | **15,942** | **9,976** | **8,146** | 12,350 | 8,480 | 5,773 |
| Other contingent liabilities | **3,139** | **2,414** | **1,221** | 4,802 | 3,364 | 2,132 |
| | **20,057** | **13,366** | **10,209** | 17,868 | 12,560 | 8,440 |
| **Commitments** | | | | | | |
| Documentary credits and short term trade-related transactions | **2,924** | **585** | **494** | 2,157 | 431 | 394 |
| Forward asset purchases and forward deposits placed | **54** | **54** | **11** | 26 | 26 | 5 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | | | | |
| One year and over | **9,140** | **4,570** | **4,133** | 7,182 | 3,591 | 3,259 |
| Less than one year | **8,903** | **–** | **–** | 5,203 | – | – |
| Unconditionally cancellable | **25,933** | **–** | **–** | 26,589 | – | – |
| | **46,954** | **5,209** | **4,638** | 41,157 | 4,048 | 3,658 |

Under the Basel Accord, credit equivalent amounts, obtained by applying credit conversion factors to the contract amount, are risk weighted according to the nature of the counterparty. Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

### 47. Fair Values

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Positive and negative fair values are the mark-to-market values of the derivative contracts adjusted for any amounts recognised in the Consolidated Profit and Loss Account for non-trading items. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Fair values at the period end are representative of the Group's typical position during the period.

Trading activities are defined as positions held in financial instruments with the intention of benefiting from short term rates or price movements.

The risk section of the Financial Review on pages 31 to 41 explains the Group's risk management of derivative contracts.

| | | | 2004 | | | 2003 |
|---|---|---|---|---|---|---|
| | Notional principal amounts $million | Positive fair value $million | Negative fair value $million | Notional principal amounts $million | Positive fair value $million | Negative fair value $million |
| **Trading book** | | | | | | |
| Forward foreign exchange contracts | 409,003 | 6,789 | 6,500 | 405,983 | 8,936 | 8,535 |
| **Foreign exchange derivative contracts** | | | | | | |
| Currency swaps and options | 116,734 | 2,592 | 2,532 | 124,138 | 1,875 | 1,931 |
| Exchange traded futures and options | 238 | – | – | 327 | – | – |
| Total | 116,972 | 2,592 | 2,532 | 124,465 | 1,875 | 1,931 |
| **Interest rate derivative contracts** | | | | | | |
| Swaps | 409,418 | 3,359 | 3,125 | 253,359 | 2,834 | 2,941 |
| Forward rate agreements and options | 57,475 | 101 | 127 | 61,506 | 89 | 81 |
| Exchange traded futures and options | 96,282 | 54 | 54 | 108,995 | 24 | 27 |
| Total | 563,175 | 3,514 | 3,306 | 423,860 | 2,947 | 3,049 |
| **Total trading book derivative financial instruments** | 1,089,150 | 12,895 | 12,338 | 954,308 | 13,758 | 13,515 |
| Effect of netting | | (7,563) | (7,563) | | (7,507) | (7,507) |
| | | 5,332 | 4,775 | | 6,251 | 6,008 |

Non-trading activities are defined as positions held with respect to management of the Group's assets and liabilities and related hedges.

| | | | 2004 | | | 2003 |
|---|---|---|---|---|---|---|
| | Notional principal amounts $million | Positive fair value $million | Negative fair value $million | Notional principal amounts $million | Positive fair value $million | Negative fair value $million |
| **Non-trading book** | | | | | | |
| **Interest rate derivative contracts** | | | | | | |
| Swaps | 2,304 | 17 | 4 | 28 | – | 2 |
| Forward rate agreements and options | 495 | – | – | 92 | – | – |
| Exchange traded futures and options | – | – | – | 2,634 | 2 | 1 |
| Total | 2,799 | 17 | 4 | 2,754 | 2 | 3 |
| **Commodity derivative contracts*** | 6,030 | 33 | 33 | 866 | 1 | 1 |
| **Total non-trading book derivative financial instruments** | 8,829 | 50 | 37 | 3,620 | 3 | 4 |

*The increase in commodity derivative contracts relates to oil options entered into on a back-in-back basis to meet customer requirements.

## 47. Fair Values continued

| | 2004 Book value $million | 2004 Market value $million | 2003 Book value $million | 2003 Market value $million |
|---|---|---|---|---|
| **Listed and publicly traded securities:** | | | | |
| Financial assets | **16,627** | **16,689** | 17,542 | 17,548 |
| Preference shares | **676** | **856** | 649 | 768 |
| Other financial liabilities | **12,013** | **11,833** | 10,760 | 10,965 |
| Financial liabilities | **12,689** | **12,689** | 11,409 | 11,733 |

Financial assets include treasury bills, debt securities and equity shares. Other financial liabilities include debt securities in issue and subordinated loan capital.

## 48. Credit Exposures in respect of Derivative Contracts

The residual maturity analysis of the notional principal amounts of derivative contracts, excluding exchange traded futures and options, held at 31 December 2004 and 2003 for trading and non-trading purposes is set out below:

| | 2004 Under one year $million | 2004 One to five years $million | 2004 Over five years $million | 2004 Total $million | 2003 Under one year $million | 2003 One to five years $million | 2003 Over five years $million | 2003 Total $million |
|---|---|---|---|---|---|---|---|---|
| **Forward foreign exchange and foreign exchange derivative contracts** | | | | | | | | |
| Notional principal amount | **479,468** | **41,409** | **4,860** | **525,737** | 488,667 | 37,075 | 4,379 | 530,121 |
| Net replacement cost | **7,640** | **1,504** | **237** | **9,381** | 9,581 | 1,091 | 139 | 10,811 |
| **Interest rate derivative contracts** | | | | | | | | |
| Notional principal amount | **243,369** | **189,548** | **36,775** | **469,692** | 166,138 | 119,008 | 29,839 | 314,985 |
| Net replacement cost | **519** | **1,782** | **1,176** | **3,477** | 474 | 1,520 | 929 | 2,923 |
| **Commodity derivative contracts** | | | | | | | | |
| Notional principal amount | **1,094** | **4,348** | **588** | **6,030** | 445 | 421 | – | 866 |
| Net replacement cost | **3** | **23** | **7** | **33** | – | 1 | – | 1 |
| **Counterparty risk** | | | | | | | | |
| Financial institutions | | | | **11,532** | | | | 12,901 |
| Non financial institutions | | | | **1,359** | | | | 834 |
| Total replacement cost | | | | **12,891** | | | | 13,735 |

The risk section of the Financial Review on pages 31 to 41 explains the Group's risk management of derivative contracts.

## 49. Interest Rate Sensitivity Gap for the Non-Trading Book

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

| | | | | | | | | 2004 |
|---|---|---|---|---|---|---|---|---|
| | Non-trading book | | | | | | | |
| | Three months or less $million | Between three months and six months $million | Between six months and one year $million | Between one year and five years $million | More than five years $million | Non-interest bearing $million | Trading book $million | Total $million |
| **Assets** | | | | | | | | |
| Cash, balances at central banks and cheques in course of collection | 545 | – | – | 2 | – | 1,722 | – | 2,269 |
| Treasury bills and other eligible bills | 2,876 | 686 | 456 | 138 | 4 | 29 | 236 | 4,425 |
| Loans and advances to banks | 10,843 | 2,934 | 1,171 | 2,540 | 153 | 586 | 695 | 18,922 |
| Loans and advances to customers | 51,154 | 8,387 | 3,053 | 5,737 | 3,125 | – | 140 | 71,596 |
| Debt securities, equity shares and joint venture | 8,901 | 3,901 | 5,175 | 6,185 | 514 | 473 | 3,586 | 28,735 |
| Other assets | 59 | – | 3 | 76 | 8 | 7,866 | 7,729 | 15,741 |
| Total assets | 74,378 | 15,908 | 9,858 | 14,678 | 3,804 | 10,676 | 12,386 | 141,688 |
| **Liabilities** | | | | | | | | |
| Deposits by banks | 10,321 | 2,533 | 1,137 | 391 | – | 779 | 652 | 15,813 |
| Customer accounts | 66,034 | 2,757 | 2,633 | 1,014 | 31 | 11,738 | 365 | 84,572 |
| Debt securities in issue | 3,428 | 917 | 1,041 | 1,339 | 31 | – | 622 | 7,378 |
| Other liabilities | 685 | 7 | 7 | 39 | 7 | 8,447 | 8,610 | 17,802 |
| Subordinated liabilities | 771 | – | – | 1,305 | 4,656 | – | – | 6,732 |
| Minority interests and shareholders' funds | – | – | – | – | – | 9,391 | – | 9,391 |
| Total liabilities | 81,239 | 6,214 | 4,818 | 4,088 | 4,725 | 30,355 | 10,249 | 141,688 |
| Off balance sheet items | 495 | 102 | (176) | (352) | (69) | – | | |
| Interest rate sensitivity gap | (6,366) | 9,796 | 4,864 | 10,238 | (990) | (19,679) | | |
| Cumulative gap | (6,366) | 3,430 | 8,294 | 18,532 | 17,542 | (2,137) | | |

The risk section of the Financial Review on pages 31 to 41 explains the Group's risk management with respect to asset and liability management.

## 49. Interest Rate Sensitivity Gap for the Non-Trading Book continued

2003*

| | Non-trading book | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months or less $million | Between three months and six months $million | Between six months and one year $million | Between one year and five years $million | More than five years $million | Non-interest bearing $million | Trading book $million | Total $million |
| **Assets** | | | | | | | | |
| Cash, balances at central banks and cheques in course of collection | 380 | – | – | – | – | 1,602 | – | 1,982 |
| Treasury bills and other eligible bills | 3,350 | 1,311 | 589 | 283 | – | – | 156 | 5,689 |
| Loans and advances to banks | 8,312 | 2,124 | 1,285 | 459 | 199 | 631 | 344 | 13,354 |
| Loans and advances to customers | 44,713 | 5,684 | 2,065 | 4,827 | 2,220 | – | 235 | 59,744 |
| Debt securities and equity shares | 7,233 | 3,026 | 3,522 | 6,188 | 795 | 396 | 2,340 | 23,500 |
| Other assets | 21 | – | 170 | 241 | 8 | 7,317 | 8,176 | 15,933 |
| Total assets | 64,009 | 12,145 | 7,631 | 11,998 | 3,222 | 9,946 | 11,251 | 120,202 |
| **Liabilities** | | | | | | | | |
| Deposits by banks | 7,258 | 752 | 801 | 450 | 19 | 1,535 | 109 | 10,924 |
| Customer accounts | 58,229 | 3,072 | 2,640 | 758 | 2 | 9,045 | 21 | 73,767 |
| Debt securities in issue | 2,264 | 562 | 1,070 | 1,782 | 99 | – | 285 | 6,062 |
| Other liabilities | 184 | 11 | 167 | 247 | 6 | 7,201 | 7,523 | 15,339 |
| Subordinated liabilities | – | – | – | 337 | 5,677 | (47)† | – | 5,967 |
| Minority interests and shareholders' funds | – | – | – | – | – | 8,143 | – | 8,143 |
| Total liabilities | 67,935 | 4,397 | 4,678 | 3,574 | 5,803 | 25,877 | 7,938 | 120,202 |
| Off balance sheet items | 2,184 | (464) | (1,523) | (197) | – | – | | |
| Interest rate sensitivity gap | (1,742) | 7,284 | 1,430 | 8,227 | (2,581) | (15,931) | | |
| Cumulative gap | (1,742) | 5,542 | 6,972 | 15,199 | 12,618 | (3,313) | | |

† Unamortised discounts on the issue of subordinated loan capital.

*Comparative restated (see note 54 on page 118).

## 50. Non-Structural Currency Exposures

The Group does not maintain material non-trading open currency positions other than the structural currency exposures arising from its investment in overseas operations and their related funding (see note 51).

The risk section of the Financial Review on page 41 explains risk management with respect to the Group's hedging policies.

## 51. Structural Currency Exposures

The Group's structural currency exposures were as follows:

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Net investments in overseas units $million | Borrowing in the functional currency of the units concerned hedging the net investment in the units $million | Structural currency exposures $million | Net investments in overseas units $million | Borrowing in the functional currency of the units concerned hedging the net investment in the units $million | Structural currency exposures $million |
| Functional currency of the business unit: | | | | | | |
| Singapore Dollar | **1,080** | **–** | **1,080** | 9 | – | 9 |
| Indian Rupee | **650** | **–** | **650** | 482 | – | 482 |
| Hong Kong Dollar | **2,920** | **–** | **2,920** | (1) | – | (1) |
| Malaysian Ringgit | **509** | **–** | **509** | 428 | – | 428 |
| Thai Baht | **180** | **–** | **180** | (1) | – | (1) |
| UAE Dirham | **271** | **–** | **271** | 241 | – | 241 |
| Korean Won | **117** | **–** | **117** | 88 | – | 88 |
| Indonesian Rupiah | **291** | **–** | **291** | 118 | – | 118 |
| Sterling | **952** | **(952)** | **–** | 842 | (832) | 10 |
| Other Non US Dollar | **883** | **–** | **883** | 832 | – | 832 |
| Total | **7,853** | **(952)** | **6,901** | 3,038 | (832) | 2,206 |

Structural currency exposures for 2004 and 2003 relate to net investments in non US dollar units.

The Group's main operations in non US dollar units were Asia, Africa, India and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore include Hong Kong Dollar, Malaysian Ringgit, Singapore Dollar, Indian Rupee and Sterling. The Group prepares its consolidated financial statements in US dollars, and the Group's consolidated balance sheet is affected by movements in the exchange rates between functional currencies and US dollars.

These currency exposures are referred to as structural. Translation gains and losses arising from these exposures are recognised in the Consolidated Statement of Total Recognised Gains and Losses.

The risk section of the Financial Review on page 41 explains the risk management with respect to the Group's hedging policies.

## 52. Market Risk

| Trading book | 2004 12 months to 31 December | | | 2004 31 December | 2003* 12 months to 31 December | | | 2003* 31 December |
|---|---|---|---|---|---|---|---|---|
| | Average $million | High $million | Low $million | Actual $million | Average $million | High $million | Low $million | Actual $million |
| Daily value at risk: | | | | | | | | |
| Interest rate risk | **3.3** | **4.4** | **2.2** | **3.4** | 2.7 | 4.0 | 1.8 | 2.9 |
| Foreign exchange risk | **2.4** | **4.5** | **1.2** | **3.0** | 1.6 | 3.8 | 0.9 | 1.3 |
| Total | **4.2** | **6.0** | **3.1** | **5.1** | 3.4 | 6.7 | 2.0 | 3.2 |

This note should be read in conjunction with the market risk section of the Financial Review on pages 31 to 41 which explains the Group's market risk management.

## 52. Market Risk continued

The Group measures the risk of losses arising from potential future adverse movements in interest and exchange rates, prices and volatilities using VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. The highest and lowest VaR are independent and could have occurred on different days.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year and involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historical data may not be the best proxy for future price movements, either because the observation period does not include extreme price movements or, in some cases, because of incomplete market data.

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR Model.

VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from events which the VaR methodology does not capture, the Group regularly stress tests its main market risk exposure. Stress testing involves valuing portfolios at prices which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the Group Risk Committee.

## 53. Hedging Instruments – Unrecognised Gains and Losses on Derivative Hedges

Gains and losses on derivatives used for hedging are recognised and reported in the profit and loss account and balance sheet in line with the underlying items which are being hedged. At 31 December 2004, the unrecognised gains and losses on derivatives used for hedging where the item being hedged had not been recognised were $17 million and $4 million respectively.

| | | | 2004 | | | 2003 |
|---|---|---|---|---|---|---|
| | Gains $million | Losses $million | Net gains/ (losses) $million | Gains $million | Losses $million | Net gains/ (losses) $million |
| Unrecognised gains and losses at 1 January | 3 | 4 | (1) | 20 | 18 | 2 |
| Exchange translation differences | – | – | – | 1 | 1 | – |
| Gains and losses arising in previous years recognised in the year | – | (2) | 2 | (18) | (15) | (3) |
| Gains and losses arising in the year but not recognised | 14 | 2 | 12 | – | – | – |
| Unrecognised gains and losses at 31 December | 17 | 4 | 13 | 3 | 4 | (1) |
| Of which: | | | | | | |
| Gains and losses expected to be recognised within one year | 11 | 2 | 9 | 2 | 1 | 1 |
| Gains and losses expected to be recognised in more than one year | 6 | 2 | 4 | 1 | 3 | (2) |
| | 17 | 4 | 13 | 3 | 4 | (1) |

## 54. Restatement of Comparative Figures

a) The Group has fully adopted the accounting requirements of FRS17 – Retirement Benefits. FRS17 replaces Statement of Standard Accounting Practice (SSAP) 24 and Urgent Issue Task Force (UITF) Abstract 6 as the accounting standard dealing with post-retirement benefits. The standard is being introduced in the UK in stages, starting with disclosures in the notes to the accounts. The full requirements of the standard are not mandatory until reporting periods starting on or after 1 January 2005, however early adoption is encouraged. The Group has adopted the standard one year early as there is now more certainty that similar requirements will be incorporated within IFRS, under which the Group will report from 2005.

   The new standard requires the Group to include the assets of its defined benefit schemes on its balance sheet together with the related liability net of deferred tax to make benefit payments. The profit and loss account includes a charge in respect of the cost of accruing benefits for current employees and any benefit improvements. The expected return on the schemes' assets is included within other income less a charge in respect of the unwinding of the discount applied to the schemes' liabilities.

   Under SSAP24 the profit and loss account included a charge in respect of the cost of accruing benefits for the current employees offset by a credit in respect of the amortisation of the surplus in the Group's defined benefit schemes. A net pension prepayment was included in the Group's balance sheet.

   A prior year adjustment has been made reducing shareholders' funds at 31 December 2003 by $202 million to reflect the revised policy.

   The effect of this change on the profit and loss account for the year ended 31 December 2004 has been to introduce other finance income of $10 million (2003: $13 million charge), and to decrease administrative expenses by $16 million (2003: $30 million decrease). Profit before tax has been increased by $26 million (2003: $17 million increase).

   The effect on the Group's balance sheet at 31 December 2004 has been to include a provision for defined benefit schemes of $110 million (2003: $124 million), to reduce prepayments and accrued income by $60 million (2003: $81 million) and reduce shareholders' funds by $183 million (2003: $202 million).

b) The cost recognition policy for the Group has been revised for share schemes to reflect their usage as long term incentive plans, in accordance with the UITF17 (revised) Employee Share Schemes.

   In previous years costs have been recognised on an up front basis. From 2004, the Group will spread the cost of share schemes over the performance/vesting period. The effect of this change on the profit and loss account for the year ended 31 December 2004 has been to decrease staff costs by $14 million before tax (2003: $9 million increase in staff costs). Shareholders' funds have been increased by $10 million (2003: $16 million).

## 55. Related Party Transactions

In accordance with FRS8, details of transactions with consolidated, subsidiary undertakings are not separately disclosed. The principal subsidiary undertakings of the Group are listed in note 22 of the accounts on pages 92 to 93.

Details of directors' pay and benefits are disclosed in the directors' remuneration report on pages 54 to 67. Details of other transactions with directors and related parties are disclosed in note 8 to the accounts, page 83.

During the year the group entered into a joint venture with PT Astra International Tbk to acquire a controlling interest in PT Bank Permata Tbk ('Permata'). Banking services provided to the joint venture have been on normal, commercial terms. At year end, receivables with Permata totalling $34.7 million and deposits from Permata totalling $5.3 million were included within the Group's consolidated balance sheet

## 56. Forward Looking Statements

This document contains forward-looking statements, including such statements within the meaning of section 27A of the US Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These statements concern or may affect future matters. These may include Standard Chartered's future strategies, business plans and results and are based on the current expectations of the directors of Standard Chartered. They are subject to a number of risks and uncertainties that might cause actual results and outcomes to differ materially from expectations outlined in these forward-looking statements. These factors are not limited to regulatory developments but include stock markets, IT developments, competitive and general operating conditions.

## 57. UK and Hong Kong Accounting Requirements

The consolidated financial statements of the Group are prepared in accordance with UK GAAP which differs in certain significant respects from Hong Kong GAAP. There would be no material differences between the accounting conventions except as set out below:

### Investments in Securities

#### UK GAAP

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis are classified as investment securities. Investment securities are stated at cost less any provision for impairment. Where dated investment securities are purchased at a premium or a discount, these premiums or discounts are amortised through the profit and loss account. Securities other than investment securities are classified as dealing securities and are stated at market value.

#### Hong Kong GAAP

Under Hong Kong Statement of Standard Accounting Practice 24 – Accounting for Investments in Securities (SSAP24), investment securities classified as held-to-maturity securities are stated at amortised cost less any provision for diminution in value. Other securities, not intended to be held until maturity, are accounted for under the 'alternative' treatment. Under the alternative treatment, securities are identified as either trading or non-trading. Trading securities are stated at fair value with changes in fair value recognised in the profit and loss account as they arise. Non-trading securities are stated at fair value with changes in fair value recognised in the revaluation reserve until disposal.

If the Group had prepared its financial statements under Hong Kong SSAP24 there would have been a net charge to the profit and loss account of $9 million, (2003: $5 million), an increase in the book amount of investment in securities of $46 million (2003: $30 million) and a credit to reserves of $32 million (2003: $21 million).

### Tangible Fixed Assets

#### UK GAAP

Under Financial Reporting Standard 15 – Tangible Fixed Assets (FRS15), revaluation gains should be recognised in the profit and loss account only to the extent (after adjusting for subsequent depreciation) that they reverse revaluation losses on the same asset that were previously recognised in the profit and loss account. All other revaluation gains should be recognised in the statement of total recognised gains and losses.

All revaluation losses that are caused by a clear consumption of economic benefits should be recognised in the profit and loss account. Other revaluation losses should be recognised in the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost; and thereafter, in the profit and loss account unless it can be demonstrated that the recoverable amount (the higher of net realisable value and value in use as defined in Financial Reporting Standard 11 – Impairment of fixed assets and goodwill) of the asset is greater than the revalued amount, in which case the loss should be recognised in the statement of recognised gains and losses to the extent that the recoverable amount of the asset is greater than its revalued amount.

#### Hong Kong GAAP

Under Hong Kong SSAP17 – Property, Plant and Equipment, when an asset's carrying amount is increased as a result of revaluation, the increase should be credited directly to equity under the heading of revaluation reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any excess thereafter will be charged to the profit and loss account.

At 31 December 2004, the Group's total properties comprised less than one per cent of the Group's total assets. A formal revaluation of certain of the Group's principal properties was performed at 31 August 2002, and at 30 September 2002 for all other properties, by independent valuers.

If the Group had prepared its financial statements under Hong Kong SSAP17 there would have been a net credit to the profit and loss account of $2 million (2003: $15 million charge) in respect of valuations below depreciated historical cost.

### Dividends

#### UK GAAP

Dividends declared after the period end are recognised as a liability in the period to which they relate.

#### Hong Kong GAAP

Under Hong Kong SSAP9 (revised) – Events after the balance sheet date, dividends are only recognised as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

## 57. UK and Hong Kong Accounting Requirements continued

The retained profit for the year ended 31 December 2004 would rise by $95 million (2003: $44 million rise) had the Company adopted Hong Kong SSAP9 (revised), and there would have been an increase in reserves of $524 million (2003: $429 million).

### Cash Flow Statement

#### UK GAAP

The Group prepares its cash flow statement in accordance with Financial Reporting Standard 1 – Cash flow statements (FRS1). FRS1 is based on cash, with no concept of cash equivalents. Cash is defined as cash in hand and deposits with qualifying financial institutions repayable on demand, less overdrafts from such institutions repayable on demand.

#### Hong Kong GAAP

Under Hong Kong SSAP15 – Cash flow statements (Revised 2001) the statement is based on a wider concept of cash and cash equivalents. Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Hong Kong SSAP15 also specifies that bank borrowings are generally considered to be financing activities. However, bank overdrafts repayable on demand, which form an integral part of an enterprise's Cash Management, are included as a component of cash and cash equivalents.

In addition, Hong Kong SSAP15 is different from FRS1 in respect of the presentation/classification of the cash flow statement. Hong Kong SSAP15 classifies cash flows under three headings: (a) cash flows from operating activities; (b) cash flows from investing activities; and (c) cash flows from financing activities. FRS1 specifies a fuller analysis using eight headings: (a) cash flows from operating activities; (b) dividends from joint ventures and associates; (c) returns on investment and servicing of finance; (d) taxation; (e) capital expenditure and financial investment; (f) acquisitions and disposals; (g) equity dividends paid; and (h) financing.

### Retirement Benefits

#### UK GAAP

#### Background

Financial Reporting Standard 17 – Retirement Benefits (FRS17) has been adopted by the Group for the first time with effect from 1 January 2004.

FRS17 requires defined benefit pension scheme assets to be measured at fair value at each balance sheet date and liabilities to be measured on an actuarial basis using the projected unit method. Differences due to actuarial gains and losses are taken through the Statement of Total Recognised Gains and Losses. FRS17 requires that the asset or liability be shown separately on the balance sheet and net of attributable deferred tax.

#### Hong Kong GAAP

Hong Kong Accounting Standard 19 Employee Benefits (HKAS19, formerly known as SSAP34) – was originally published by the Hong Kong Institute of Certified Public Accountants in December 2001 and was effective for periods beginning on or after 1 January 2002. Subsequent updates mean that HKAS19 is now essentially the same as IAS19 as issued by the International Accounting Standards Board.

Accordingly the only material difference between HKAS19 and FRS17 is in respect of the treatment of actuarial gains and losses. HKAS19 requires these to be recognised in the profit and loss account rather than in the Statement of Total Recognised Gains and Losses.

On 16 December 2004, the International Accounting Standards Board announced that it will allow the FRS17 treatment of actuarial gains and losses under IAS19. It is therefore assumed that the Hong Kong Institute of Certified Public Accountants will, in due course, adopt a similar approach in order to maintain the consistency of HKAS19 with IAS19.

In the light of this the pension disclosures have not been reworked to reflect what seems likely to be only a short term difference between FRS17 and HKAS19.

### Deferred taxation

#### UK GAAP

Under Financial Reporting Standard 19 – Deferred tax, deferred taxation is provided in full, subject to the recoverability of deferred tax assets, on timing differences at the rates of taxation anticipated to apply when the differences crystallise, arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

#### Hong Kong GAAP

Under Statement of Standard Accounting Practice 12 (revised) – Accounting for deferred tax, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis are recognised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The deferred tax asset balance would be decreased by $28 million at 31 December 2004 (2003: $24 million) and the deferred tax liability balance would be increased by $nil at 31 December 2004 (2003: $nil). The profit and loss reserves balance would be decreased by $7 million (2003: $8 million) and the premises revaluation reserve would be decreased by $22 million at 31 December 2004 (2003: $16 million).